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Impact of Deindustrialization on the Structure of the Economy and Labour Market: the Case of Ukraine

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Abstract Article discusses the process of deindustrialization of Ukrainian economy since 1991 and its impact on the economy structure and labour market. The authors propose periodization of the deindustrialization process which includes 4 main periods: 1991-2000 – Dramatic downsizing; 2001-2008 – Rapid growth; 2009-2013 – Cyclical period of economic recovery after the shock of the global financial crisis; and 2014-2019 – Restoration of stability. Their factors, features and influence are investigated in this study. The paper also assesses the link between deindustrialization and structural changes of the labour market during these periods of development. As a result of the study, it is concluded that the deindustrialization in periods of long-lasting transformation crisis in Ukraine has led to the waste of skillful workforce and rise of informal employment, whereas financialization has not resulted in increase of investments much-needed for modernization of the industrial sector and creation of highly productive jobs. The structure of employment has changed in favour of services.

Keywords: deindustrialization, financialization, labour market, structure of the economy, Ukraine.

JEL classification: O1, O2, O5, P2, P4, J6.

1. Introduction

From 1991 to 2019, Ukraine underwent a difficult path of transformation, which included establishment of a new state, transition from a planned command economy to a market one, adaptation of a transition economy to the shock of the global economic crisis of 2008-2009, and socioeconomic consequences of Russia's annexation of Crimea in 2014 and the conflict in the East part of Ukraine. The capacity of the

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economy of Ukraine has been changing drastically over the last thirty years as the centralized mechanism was replaced by market institutions.

With some conditionality, we can distinguish the following periods of economic dynamics of the country which differed in their structural changes in the sectoral aspect of GDP and value added, and employment:

- 1991-2000 – Dramatic downsizing;
- 2001-2008 – Period of rapid growth;
- 2009-2013 – Cyclical period of economic recovery after the shock of the global financial crisis;
- 2014-2019 – The period of restoration of stability after the shock of the loss of Crimea and the military conflict in the East of the country.

These four stages of Ukraine's development simultaneously became periods of the country's deindustrialization. Each of them (due to various reasons) brought structural changes indicating the reducing role of the industrial sector in the country's economy and migration of labour from industry and agriculture to services, in particular to the financial sector.

But this process had different intensity and scale in different periods. Therefore, we are faced with the question of assessing not only the general pace and scale of deindustrialization and financialization, but also the features and specific consequences of these processes at certain intervals. The next task is to assess the link between deindustrialization and structural changes of the labour market during these periods of development.

2. Literature Review

The issue of the scale of deindustrialization processes in Ukraine has been widely studied in literature. According to Rogach & Samonis (1993; 1996) in the early years of independence, Ukraine was a powerful industrial economy and one of the most developed regions of the Soviet Union. In the opinion of Siedenberg & Hoffmann (1999), the Ukrainian economy was overindustrialized with an extremely large share constituted by foregoing military-industrial and inefficient coal extraction sectors, and it was only a region in the holistic centralized economy of the USSR despite existence in form of the Soviet republic. According to Cornelius (1997) in 1994, the Ukrainian government launched a stabilization programme supported by international financial institutions leading to relative macroeconomic stability achieved in 1996.

As argued by Glyn (1998), non-agricultural employment is influenced by capital accumulation, but a low level of gross capital formation accelerates deindustrialization since capital stock affects industrial employment more significantly and less influences employment in the service sector. Rowthorn (1995) added that low investment in the industrial sector was limiting possibilities for increased profits that could lead to job creation. Kryuchkova (2016) states that global crises had a great influence on the Ukrainian economy, as well as deindustrialization and financialization of the country through the gross fixed capital formation level. IMF (1997) Ukraine Report provides

a lot of information on the development of Ukraine. In accordance with the Report, in the 1990s state enterprises and privatized enterprises had to provide support of the social sphere (housing, kindergartens, schools, hospitals, and others) at the expense of corporate costs. Rogach & Shnirkov (1999a) also pointed that lack of resources for investment in non-financial sector resulted in progressive depreciation of fixed assets; technological development of the Ukrainian industry was impeded and obsolete technologies became an obstacle for competitiveness of Ukrainian producers on both internal and external markets. As Repko (2019) emphasizes the significant role of the credit boom in 2000-2007 when bank loans served as a crucial source of gross capital formation and subsequent economic growth, but explosive growth in borrowing led to a bubble that burst in 2008-2009.

According to Aslund (2006), Ukraine's market transformation encompassed Washington Consensus dimensions of liberalization and other reforms. But, as Sutela (2012) noted, political instability and turmoil transition, as well as institutional disorganization slowed down economic reforms in the early period of transition, and the country experienced huge production decline and deindustrialization.

3. Hypothesis, Methodology and Data

Our working hypotheses are as follows:

Hypothesis 1 Throughout the period (1991-2019), Ukraine underwent very significant deindustrialization of the economy, as well as growing financialization of the country.

Hypothesis 2 At different stages of development, the deindustrialization was caused by different factors or combinations of factors. The financialization of the country was an important but not the only determinant of deindustrialization. At different stages of economic development, the role of financialization as a driver of deindustrialization was different.

Hypothesis 3 The social consequences of deindustrialization and financialization were noticeable in all periods of economic development, but the direction of these effects was opposite.

Hypothesis 4 The negative effects of deindustrialization in employment were particularly substantial in 1991-2000, when the development of services and financialization of the economy failed to absorb most of the workforce released from industry.

We used statistical data for gross domestic product and gross value added from the World Development Indicators Database by World Bank (1991-2019) as well from State Statistics Service of Ukraine Databases (2020). Data for the average number of full-time employees were collected from the State Statistics Service of Ukraine but just covered 1995-2019. For the period 1991-1994 data were based on the authors' estimations. Due to the fact that national statistical data of the period of transformation of the Ukrainian economy from a planned system to a market one (1990s) are fragmentary, and in some years are absent, we also used the estimates and statistics of IMF (1997) *Ukraine – Recent Economic Developments*, *IMF Staff Country Report*, as well as National Bank of Ukraine (NBU) analytical materials:

Banking Sector Review and NBU Database for this period. It should also be taken into account that no reliable data of informal sector performance are available; estimates of the size of informal sector are ranging from 30% to 60% of the formal sector.

4. Results

4.1 1991-2000: Deindustrialization due to the Market Transformation of Ukraine (a period of significant contraction of the industrial economy due to market transformation and the collapse of the USSR)

In the early 1990s, the newly independent Ukraine was a powerful industrial economy. According to the Industrial Development Index, it was one of the most developed regions of the Soviet Union. The basic branches of the mining industry, metallurgy, metal-intensive engineering, automobile, shipbuilding, tractor, electric technology, radio electronics and radio engineering, and aerospace industries were concentrated here. A special place was occupied by the military-industrial complex – Ukraine was one of the main centres of production of modern weapons and components for the army.

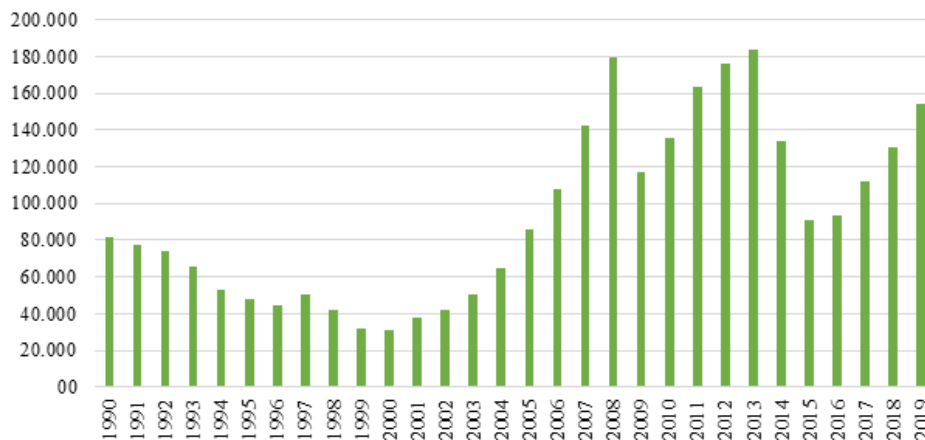
Thus, 1991 could be considered the starting period of deindustrialization of Ukraine. Since then, for various reasons, the country has undergone fundamental structural changes that have radically changed the role of the industrial sector and its relationship with the service sector.

Among the factors leading to reduction in the share of the industry we should note:

1. Reduction of energy-intensive production due to a sharp increase in the cost of energy (oil, gas, and electricity);
2. The rupture of traditional cooperation within the Soviet Union and the refusal of enterprises of other independent CIS countries to buy products of Ukrainian industrial enterprises;
3. Inefficiency (and sometimes unprofitability) of some industrial enterprises that existed at the expense of state subsidies;
4. Bankruptcy of some enterprises due to competition;
5. Privatization of state-owned industrial enterprises and inefficient management of new owners;
6. Destruction of the military-industrial complex of Ukraine and conversion of these enterprises for production of civilian products;
7. Overall reduction in demand for industrial products due to the prolonged economic transformation crisis and falling consumer demand.

The rapid absolute reduction in industrial production in Ukraine in 1991-1996 and dismissal of a large number of workers in these enterprises became the impact of all these factors. After the collapse of the Soviet Union as a result of market transformation, Ukraine's GDP fell by about 60% from 1990 to 2000 (Figure 1).

Figure 1. Gross Domestic Product at Current Market Prices, USD mln

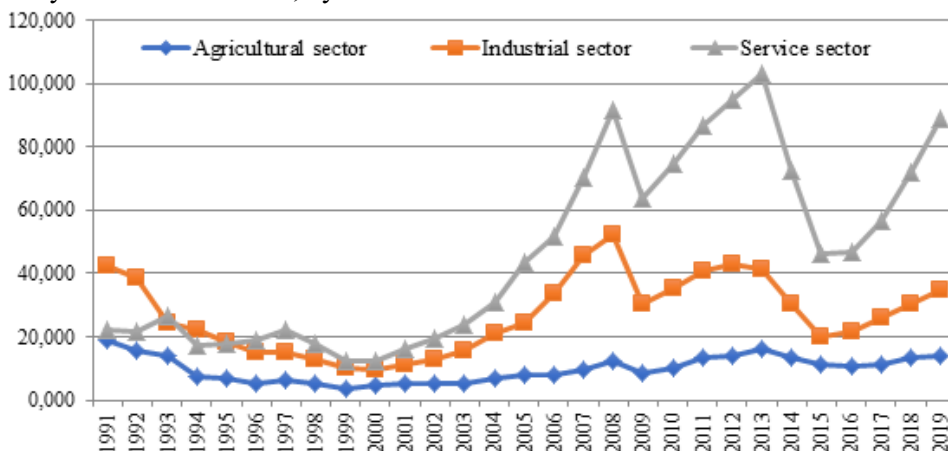


*No reliable data of informal sector performance are available; estimates of the size of informal sector are ranging from 30% to 60% of the formal sector

Note: Data for gross domestic product from the World Bank Database (1990-2019)

In 1991-1996, the Ukrainian economy was going through the crisis caused by dismantled command economy and market-oriented reforms including privatization (Elborgh-Woytek & Lewis, 2002) and price liberalization that provoked structural changes. In 1991 the largest share of gross value added (GVA) was generated by industrial sector (USD 42.3 bn), but by 1996 GVA in industrial sector declined by 64.4% and service industry generated more GVA in 1996. Decline in service industry GVA in 1996 in comparison to 1991 was only 15.5% (from USD 22.4 bn to USD 18.9 bn) (Figure 2).

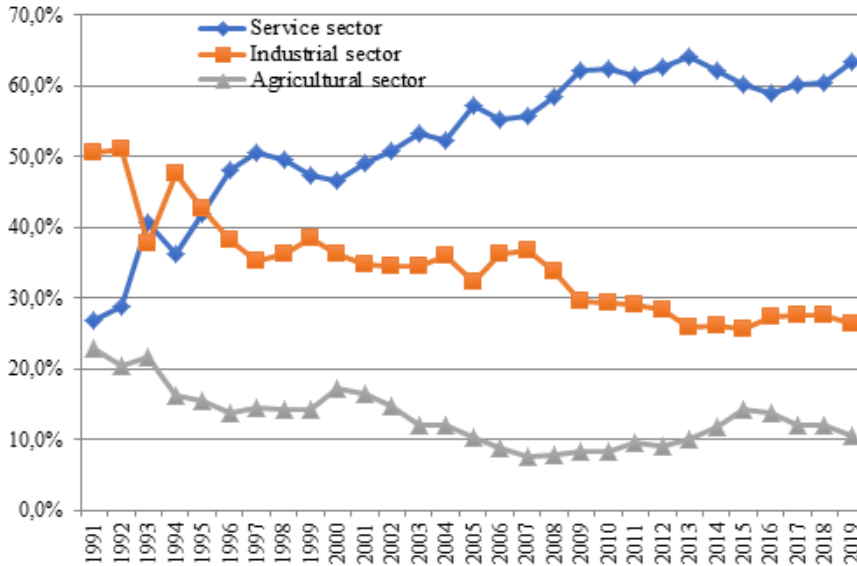
Figure 2. Gross Value Added (Goods and Services Output) by Type of Economic Activity at Current USD bn, by Sector



Note: Data for gross value added from the World Development Indicators Database by World Bank (1991-2019)

The share of sectors in the economy changed in 1991-2000 as the industrial and agricultural sector GVA dropped faster than the service sector GVA. In 1991, the industrial sector accounted for 50.5% of total GVA, the service sector – 26.7%, and the agriculture – 22.8%. By 2000, the share of the service sector grew by 19.9 percentage points (to 46.6%), the share of industrial sector declined by 14.2 (to 36.3%) and the share of agricultural sector dropped by 5.7 percentage points (to 17.1%) (Figure 3).

Figure 3. Gross Value Added (Goods and Services Output) by Type of Economic Activity at Current LCU, Share from Total by Sector



Note: Data for gross value added from the World Development Indicators Database by World Bank (1991-2019)

On the other hand, the transformation period was characterized by expansion of services, creation of thousands of small and medium enterprises in trade, consumer services, transportation, tourism, legal, audit services and more. The financial sphere played a special role in this process of deindustrialization. The breakdown of the state monopoly on banking, insurance, auditing and other services led to the emergence of numerous private institutions in this area.

Thus, the deindustrialization in Ukraine in 1991-2000 took place under the influence of two groups of factors.

The *first group* included many factors of market transformation, breaking the old command structure of the economy, the impact of new energy prices, destruction of old supply networks due to their inefficiency or the collapse of the Soviet Union.

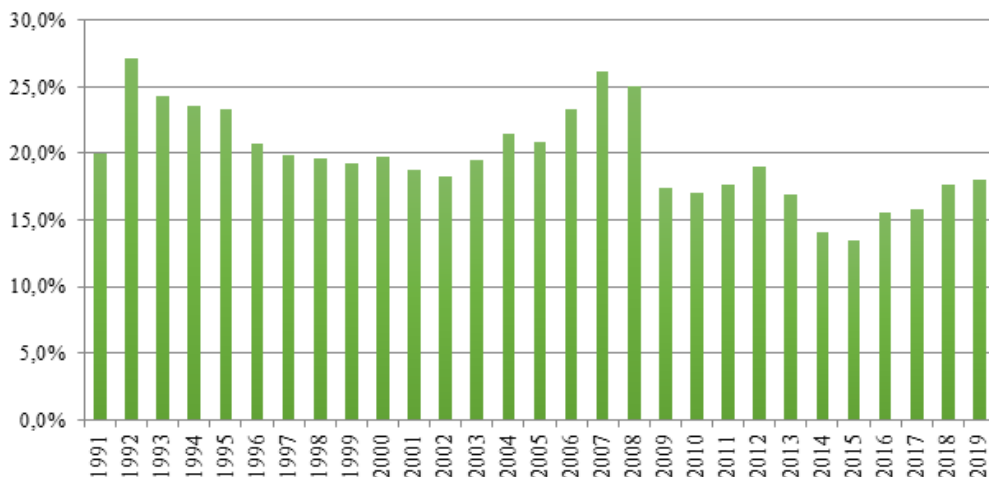
The *second group* included factors of growing new sectors of the service economy, public services, and the creation of small and medium enterprises providing services to the population. Also it covered the rapid development of the financial sector of Ukraine, as evidenced by the emergence of commercial private banks and the growth

of their branch networks, insurance companies, pawnshops, trust, financial and investment companies.

The labour market has undergone structural changes caused by the deindustrialization. In 1991-2000, this process was particularly intensive. Although the total number of employees in the country decreased during this period, this was mainly due to the layoff of workers in industry and agriculture. At the same time, the share of those employed in the service sector was growing steadily.

Despite the economic transformation crisis that lasted for almost 10 years, workers laid off from industrial enterprises (due to their closure or reduction of production) often found a new job in the service sector. If in the middle of this period in 1995, the industry and agriculture were the place of work of the majority of the working population (6mln and 4mln people out of the total working population of 18mln people), but by the end of this period the situation changed radically.

Figure 4. Gross Capital Formation, % of GDP



Note: Data for gross capital formation from the World Development Indicators by World Bank (1991-2019)

During the second half of this period (1995-2000) due to deindustrialization, these sectors ceased to be the main place of employment. On the contrary, the share of the service sector increased from 43% in 1995 to 50% in early 2001.

Thus, we can assume that in late 2000-early 2001 Ukraine entered a new stage of structural change – for the first time in its long history (which included decades of economic development in the Soviet Union), the industrial and agricultural sectors lost ground in the number of workers to the service sector. This milestone coincided with the end of the long period of economic transformation crisis, when Ukraine actually lost half of its GDP. The ‘forced’ transformational deindustrialization had acute negative socio-economic consequences. It was accompanied by a sharp rise in the shadow economy, unemployment, falling incomes, a widening gap between rich and poor, and feelings of dissatisfaction and pessimism among the population. It also

caused other negative social consequences, such as criminalization of the society, rapid growth of corruption and the influence of oligarchs (merging of criminal, industrial and political power) on political life, and intensification of political instability and protests in Ukraine.

4.2 2001-2008: Deindustrialization due to the Rapid Growth of the Service Economy (Period of high economic growth)

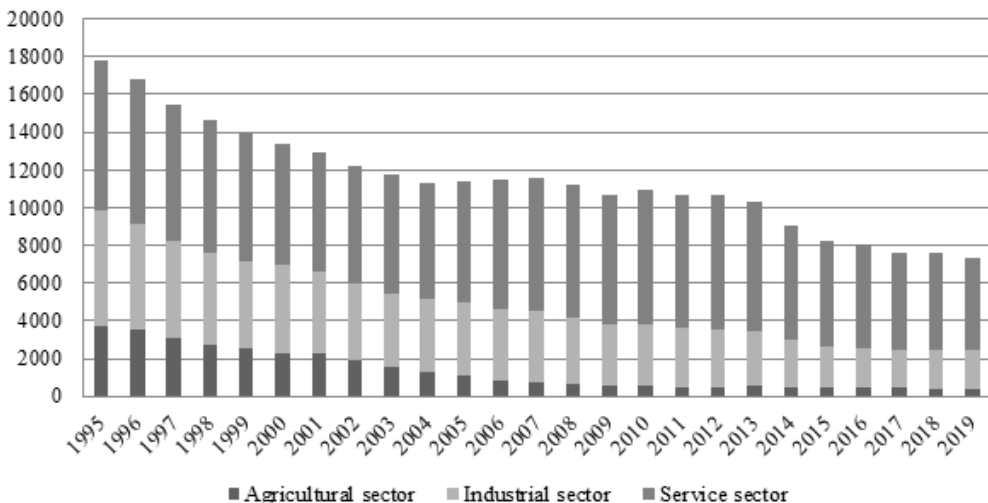
From 2001 to the onset of the global financial crisis, Ukraine showed high rates of economic growth due to:

1. The positive effect of the structural reforms carried out in the previous years;
2. Favourable conditions for foreign trade;
3. Financial stabilization and introduction of the national currency.

All three sectors of the economy (industry, agriculture and services) showed steady growth rates, which was radically different from the negative dynamics of the previous period. As shown in Figure 3, the highest growth rates were shown by the services sector, which led to further structural changes in GDP and employment. At the beginning of this period, the service economy was already generating 49% of Ukraine's gross value added. At the same time, the industry accounted for only 35, and agriculture – 16%.

The yearly average number of employees has been constantly decreasing for the last 25 years (Figure 5). Since 1995 this number has been halved. The sectoral distribution is shown in the next chart.

Figure 5. The Average Number of Employees (Thousand) by Economic Sector

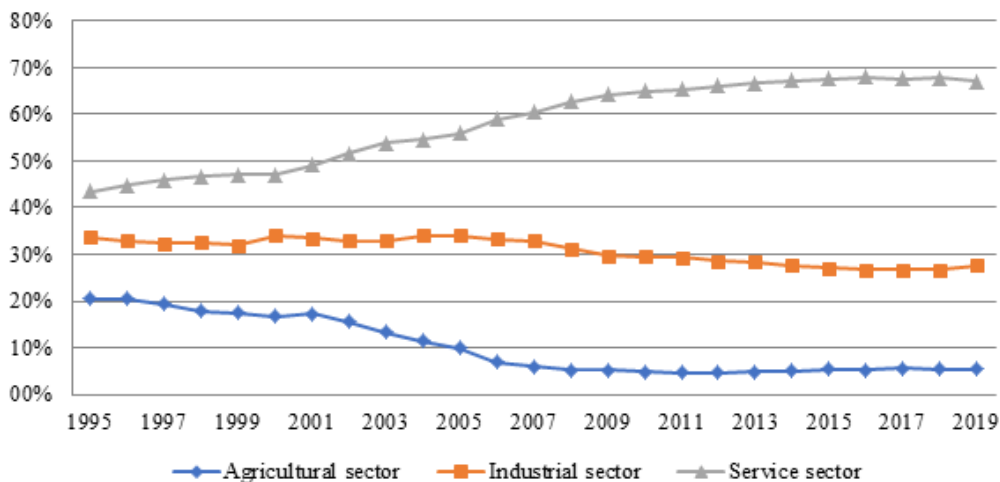


Note: Data for the average number of full-time employees from the State Statistics Service of Ukraine (1995-2019)

The share of employees in different sectors of economy has been changing since 1995

(Figure 6): the share of employees in the sector of services has increased from 43% in 1995 to 67% in 2019; the share of employees in the industrial and agricultural sectors has fallen by 6% and 15% accordingly during the same period of time.

Figure 6. The Share of Employees by Economic Sectors



Note: Data for the average number of full-time employees from the State Statistics Service of Ukraine (1995-2019)

Several features of deindustrialization of Ukraine at this stage should be noted.

1. In contrast to the previous period, this process took place not due to the factors of the first group (transformational breakdown of inefficient planned economy), but due to faster growth of the services sector. The services sector was at that time one of the main drivers of the country's economic development. Among the branches of the service sector, high dynamics was demonstrated by professional, scientific and technical activities, administrative and support service activities, accommodation and food service activities.
2. The increase in the share of the services sector was accompanied by a very significant reduction in the role of agriculture (the share of the agricultural sector decreased almost twice during this time, from 18% in 2001 to 9% in 2008 (Figure 3)).
3. The very favourable situation on global markets led to high growth rates of metallurgy, chemical and agro-industrial products of Ukraine, thus stabilizing the share of this sector in GDP (28-30% in 2002-2008).
4. Deindustrialization and growth of the services sector reflected the rapid financialization of Ukraine during this period of its development.

The latter conclusion requires further analysis and is important for understanding the social consequences of Ukraine's deindustrialization. Although the growth of the financial sector has been observed since the second half of the 1990s, this process was particularly noticeable in 2001-2008. It was at this time that the country's banking

system was finally formed, and the number of commercial banks reached its maximum value in the thirty years of Ukraine's existence. In the early 2000s, the foundations of the country's stock market were formed, many institutions of financial intermediaries, registrars and custodians of securities appeared, and the investment fund industry began to develop.

Unlike the first stage of 'forced' deindustrialization, this process in 2001-2008 did not have such acute negative social consequences.

The reduction in the number of employees in the country slowed sharply. Their total number from 2002 to 2008 stabilized at 11-11.5 million people and even began to increase slightly in 2005-2007 (Figure 5). Such positive dynamics of the labour market was achieved due to the development of the services sector and the rapid growth of the financial sector in particular.

At the same time, deindustrialization continued to drive out 'redundant' workers from both industry and agriculture. During this period of economic development of Ukraine, the services sector became the main direction of intra-industry labour migration, as well as one of the most attractive areas of work for young and middle-aged people. If at the beginning of this second period of deindustrialization, the services sector accumulated 50% of employment, at the end of active financialization and development of other service industries this figure was already almost 64%.

As already mentioned, particularly significant structural changes in the labour market during this period also occurred due to the reduction of employment in agriculture. The share of this industry decreased almost 3 times from 18% in 2001 to 6% in 2008. Although the industrial sector was the workplace of 32-33% of all employees during the period, in 2007-2008, it also began to reduce labour demand due to deteriorating conditions for Ukrainian export industrial goods on world markets (Figure 6).

Thus, financialization was one of the main reasons for the deindustrialization of Ukraine's economy at the 2nd stage of this process. The decrease in the share of the industrial sector and agriculture of Ukraine, in contrast to the 'forced' deindustrialization of the 1990s, was solely due to the faster growth of new service sectors, including banking insurance, auditing, financial consulting, investment and others.

Deindustrialization due to the development of the service economy had opposite social consequences compared to the first period of Ukraine's development. Nominal and real wages in the period 2001-2008 grew at the highest rate in the history of Ukraine. Unemployment dropped significantly, housing construction and the purchase of durable goods (cars, refrigerators, furniture, etc.) increased.

However, this did not lead to any automatic solution to other acute social problems, such as corruption, smuggling, shady business schemes, informal employment, and payment of 'informal' salaries (Kupets, 2005; Lehmann & Pignatti, 2008). The financial sector also came under the major control of oligarchs who played an increasing role in the country's political life.

4.3 2009-2013: Deindustrialization due to External Shocks (Cyclical period of economic recovery after the shock of the global financial crisis)

The global financial crisis 2008-2009 interrupted the trends of the previous period of deindustrialization of Ukraine. It caused new structural changes and trends that differed from previous years.

The beginning of this period was characterized by the following events:

1. A very significant decline of GDP caused by contraction of both industry and financial sector;
2. A long period of economic recovery from the crisis and stabilization of the economy (almost 4 years);
3. A period of significant financial instability, which included devaluation of the national currency, the deep mortgage and the consumer credit crisis, and sharply exacerbated problems and risks in the banking sector (Repko, 2019).

External shocks caused the negative social consequences of deindustrialization. The number of employees began to decline again (after some stabilization at the previous stage in 2001-2008). If at the beginning of this period it averaged 11.5 million people, then in 2013 it was a little more than 10 million (Kryuchkova, 2012).

The labour migration of the population became widespread (Standing & Zsoldos, 2001; Osipian, 2009). It is estimated that since 2009, millions of workers have started leaving Ukraine (to work in Russia, Poland, Italy, Portugal, Spain and other countries) en masse. Although the decline in employment was observed in all sectors, it was the smallest in the service economy and agriculture. The most significant reduction in the number of jobs occurred in industry. The share of this sector in total employment decreased again – from 31 to 29%. Although the service sector of the economy failed to neutralize external shocks (and even intensified them in finance), the services sector continued to be the largest place of employment and further increased its share of the labour market from 63% to 67% (Figures 5 and 6).

Although the process of deindustrialization in Ukraine did not stop at this stage, its pace was not as high as before. The share of industry in total value added continued to decline gradually from 25% at the beginning of this period to 22% in 2013. A similar indicator for agriculture after a long decline stabilized due to high demand in the world food markets. Ukrainian agrarian companies began a successful expansion into world markets at this time, although their export positions represented only lower of chains of value creation in agribusiness.

4.4 Period of restoration of stability after the shock of the loss of Crimea and the military conflict in the east of the country

After the acute political crisis of 2014, Ukraine entered a new period of instability, the factors of which were Russia's annexation of Crimea and the loss of control over a large part of the territory in the east of the country. If Crimea has never been of great industrial importance, the loss of control over the industrial areas of Donetsk and Luhansk regions has become a factor in the further deindustrialization of the country

and the reduction of GDP. Ukraine is estimated to have lost about 20% of GDP as a result of the events of 2014. Supply chains in the metallurgical, coal, metalworking and chemical industries were disrupted.

Thus, at this stage of development, deindustrialization was the result of military-political events, rather than the conscious national policy or structural changes due to uneven sector growth rates. Under the threat of loss of sovereignty and political independence, and the financial and economic collapse, the Government focused its policy on other priorities and goals of the strategic plan at this time.

Social adaptation to deindustrialization and the risks of shrinking the financial sector were not the focus of the Government. For example, a much more pressing issue was the problem of helping hundreds of thousands of migrants from the eastern regions affected by military conflict, or rescuing the banking sector from collapse and compensating for the lost savings of thousands of bank depositors.

Figure 1 shows the short-term shock of the economy from the political crisis, the annexation of Crimea and Ukraine's loss of control over part of the territories in the east. If in 2013 the GDP was USD 180bn, it fell to almost USD 90bn in 2015. Since 2016, there has been a resumption of growth dynamics, which indicates that the country's economy as a whole has already adapted to the new conditions.

After a substantial reduction in the labour market in 2014-2015, due to the loss of significant potential of industry and business in the Crimea and in uncontrolled areas of Luhansk and Donetsk regions, this trend has continued in subsequent years, albeit less intensely.

The average number of employees in Ukraine decreased from over 10 million in 2013 to 7.5 million in 2019 (Figure 5). The decline in demand for workforce covered all sectors of the economy – industry and agriculture, as well as services. At the same time, in contrast to previous periods in the service sector, in particular the financial sector, the number of employees has decreased sizably. As a result, the share of the service economy in the overall structure of employment has stopped growing and even began to decline. This process became especially noticeable in 2018-2019 when the service sector significantly reduced the number of employees due to the crisis in the banking sector and the bankruptcy of dozens of Ukrainian banks.

This trend is confirmed by Figure 2 – the gross value added of the service sector in 2019 was at the level of 2011 and well below the level of this indicator at the end of the previous period of deindustrialization. At the same time, the reindustrialization of Ukraine's economy did not take place. After a certain decline in the share of the services sector in the total value added of the country (2015-2016), this figure again reached 69%, it returned to its values, which were recorded at the end of the previous period of deindustrialization (2013 – 69%).

The data in Figure 4 *Gross Capital Formation* (GCF) also show that Ukraine's economy adapted to the shock of losing territories and some factors of production (labour, industrial assets, and land) at the end of this fourth period of deindustrialization. In 2019, the share of GCF in the country's gross domestic product was 18%, which was one of the highest figures for the last ten years.

The continued reduction in the scale of financialization was a feature of the fourth period of deindustrialization. This trend was noticeable in the previous period of deindustrialization under the influence of the global financial crisis, but now it has become larger. This process of definancialization included not only the liquidation of almost half of the country's banking institutions and the dismissal of their employees. In 2014 there were 178 banks, and in 2017, their number decreased to 99. Even those banks that received the support of the National Bank of Ukraine and avoided bankruptcy or insolvency problems in 2014-2019 significantly reduced their branch network and number of employees.

Due to the reduction in the number of banking and insurance institutions, the gross value added of this sector has fallen sharply compared to the previous period of deindustrialization. For four years (2015-2018), it was even smaller than in 2004, when the country's banking sector began to grow rapidly and the financialization gained momentum. If we compare the value added of the financial sector at the end of each of the 4 periods of deindustrialization, we can see that in 2019 the GVA amounted to only USD 4.3bn, which was 3 times as small as at the end of the second period of deindustrialization and financialization (2008) and 2 times as small as at the end of the third period of deindustrialization (2013) (NBU, 2020; NCSRFSM, 2020; UAIB 2020).

The reduction of the financial sector during this period had impactful negative social consequences. Tens of thousands of employees of Ukrainian banks have lost their jobs; real incomes of workers in this sector have heavily dropped. A significant increase in demand due to definancialization has led to a decrease in the number of students in the departments of finance and a reduction in training programmes for this area.

5. Conclusions

Over the last thirty years, Ukraine has experienced an extremely strong deindustrialization of the economy. As a result, the service economy has begun to play a major role in the economic development (67% of value added) and has absorbed most of the country's working population (68% of employees). Deindustrialization of Ukraine has had a different nature and growth rate over the past thirty years. We could distinguish four stages of deindustrialization which differed in the main reasons for this process:

- 1991-2000 due to the market transformation of Ukraine;
- 2001-2008 due to the rapid growth of the service economy;
- 2009-2013 due to external shocks;
- 2014-2019 due to political upheavals, military events, and the loss of part of the territory.

During the first period of deindustrialization (1991-2000) the main reason for this process was the market transformation of the economy, the crisis of inefficient planned state-owned industrial enterprises, and the rupture of traditional cooperative supply ties among the republics of the former USSR. The rapid development of new sectors of the service economy, including banks, insurance companies, consulting and trading firms, also intensified deindustrialization, but was inferior in strength to the factors of the first group.

In the second period of deindustrialization (2001-2008), its main reason was not the

industrial crisis, but the extremely rapid growth of services. The services sector was at that time one of the main drivers of the country's economic development. One of the components of such structural changes was the formation of the financial sector of Ukraine and the financialization of the country, which has gained rapid momentum and scale.

The third period of deindustrialization (2009-2013) took place under the influence of significant external shocks caused by the global financial and economic crisis of 2009. The contraction of the industrial sector was the result of negative trends in world markets for Ukraine's main export goods. At the same time, the financial sector of Ukraine also suffered considerable external shocks, which led to its reduction, albeit on a smaller scale than industrial production. Financialization has slowed significantly and ceased to play the role of one of the main drivers of economic development.

The fourth period of deindustrialization, which covers 2014-2019, strengthened the trends of the previous stage. But the peculiarity of deindustrialization was that it was the result of military-political events, rather than the conscious national policy or structural changes due to uneven sector growth rates. This period of deindustrialization was characterized by the continued reduction in the scale of financialization.

The deindustrialization has had an extremely strong social impact on all aspects of life in Ukraine. This impact was negative, with a sharp rise in unemployment, falling incomes, loss of skills of many industrial workers, mass impoverishment, and increasing labour migration in particular. The negative social consequences of deindustrialization were noticeable in all periods of economic development, but they were greatest in the first stage of deindustrialization which lasted almost ten years and was due to the market transformation of Ukraine's economy.

In the periods of 1991-2000 and 2001-2008, financialization had a positive impact on the labour market and income growth. In the first stage of deindustrialization, due to the immaturity of the financial market at this time, financialization only partially offset the negative effect of the reduction of the industrial sector. At the same time, in the second stage of deindustrialization, financialization became one of the main drivers of economic growth and had a strong positive effect on the workforce. The sphere of financial services at this time became one of the most attractive places of employment in Ukraine, which led to fundamental structural changes in the labour market and training. In the third and fourth stages of deindustrialization (2009-2019) of Ukraine, financialization did not have any significant positive effect on the labour market. On the contrary, it has become one of the generators of unemployment and social problems. Financial instability has led to the loss of liquidity of most Ukrainian banks, resulting in the bankruptcy of many of them and a very sharp decline in employment in this sector.

Deindustrialization in times of long-lasting transformation crisis in Ukraine has led to waste of skillful workforce and rise of informal employment, whereas financialization did not result in increase of investments much-needed for modernization of the industrial sector and creation of highly productive jobs. The structure of employment has changed in favour of services.

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Determinants of Typical Errors in Interpretation of ECHR Provisions in the Jurisprudence of Ukraine

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Abstract The article will examine the determinants of typical errors in the interpretation of ECHR provisions in the jurisprudence of Ukraine. It will prove that the ratification of the ECHR by Ukraine has begun the process of changing the dominant positivist paradigm of law, which has led to the emergence of legal theory and the implementation of the necessary for the further development of pluralism. At the same time, such a process immediately provoked lively discussions around the problem of interpreting the content of the requirements laid down in the Convention. Nevertheless, the problem is that there is no consensus among researchers on understanding the general question of the place of ECHR decisions in the Council of Europe member state's internal legal system. It can be stated that in the analyzed cases, the Ukrainian courts have interpreted the same ECtHR decision differently, resulting in a violation of one of the conceptual principles - the unity of interpretation and unambiguous application of ECtHR practice. It will be substantiated that a totality of these points leads to a logical conclusion. Despite the legislative consolidation of the status of ECtHR decisions as a source of law in Ukraine, the factors hampering the proper application of ECtHR practices are the lack of a systematic and valid methodology for formulating and motivating court decisions using an effective interpretative interpretation ECtHR regarding specific decisions.

Keywords: interpretation of international law, Vienna Convention on International Treaties of 1969, ECHR, national legal system of Ukraine.

Jel Classification: K33.

Having ratified the ECHR, Ukraine has begun changing the dominant positivist paradigm of law, which has led to the emergence of legal theory and the implementation of the necessary for the further development of pluralism. At the same time, such a process immediately provoked lively discussions around the problem of interpreting the content of the requirements laid down in the Convention (Karvatska,

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2019). However, the problem is that there is no consensus among researchers on understanding the general question of the place of ECHR decisions in the Council of Europe member state's internal legal system. At the end of March 2006, the Law of Ukraine "On the Enforcement of Judgments and the Practice of the European Court of Human Rights" of 23.02.2006 came into force. In Art. Seventeen of the said Law states that "courts should apply the ECtHR Convention and practice as a source of law when considering cases." At the same time, the questions of what parts of the ECtHR's decisions can be considered a source of law, as scientists rightly admit, are unclear. In the scientific community, there are two positions on the status of the ECHR in Ukraine's legal system. The first is that the conclusions set out in the ECtHR's decisions are for guidance only. The second acknowledges the primacy of the Convention over the Constitution, referring to the Vienna Convention on International Treaties of 1969. The paradox of the legal situation is that the ECHR is recognized as an integral part of Ukrainian law, and the ECtHR's practice, under Art. 19 of the Convention is an integral part of it. That is, by establishing the fact that the ECtHR's practice is not applied or improperly applied, one can speak of a violation of the provisions of an international treaty.

The legislation stipulates that in the event of a conflict between the rules of national legislation of Ukraine and the Convention, the rules of the Convention as an international treaty are subject to priority application. In favor of this position, I. Ilchenko, Chief Specialist of the Expert and Methodological Section of the Secretariat of the Government's European Court of Human Rights, makes the following arguments: Article 8 of the Constitution of Ukraine, defined in particular in Article 26 of the Vienna Convention on the Law of Treaties, 1969 and Article 19 of the Law of Ukraine on the Treaties of Ukraine, 29 June 2004, which explicitly states: "... if an international treaty of Ukraine, which has entered into force following the established procedure, establishes rules other than those provided for in the relevant act of the legislation of Ukraine, then the rules of the international treaty are applied", second, in substantiating the priority of the norms. The Convention should focus on Article 22 (3) of the Constitution, according to which "the adoption and amendment of existing laws shall not restrict the content and scope of existing rights and freedoms" (Ilchenko).

Much of the difficulty is a derivative of the lack of a single judicial practice to date in applying ECtHR decisions as a source of law. The lack led the Verkhovna Rada Commissioner for Human Rights, Valery Lutkovskaya, to file an appropriate submission to the Constitutional Court of Ukraine. The author of the request requested an official interpretation of the provisions of the Constitution of Ukraine in the aspect of urgent issues. First, «should the requirements of the Convention be applied as a normative act of force majeure if the Convention, whose requirements have been interpreted in judgments of the European Court of Justice against both Ukraine and other states, set rules other than those laid down by national law?» In other words, «is the Convention a normative act of force majeure with respect to the provisions of legislation adopted by national authorities?» (Verkhovna Rada of Ukraine, 2018, Case No 1-77 / 2018 (4117/17). Furthermore, secondly, «is the decision of the European Court of Justice not in Ukraine

a source of law in Ukraine»? The questions remained open since the ruling of the Grand Chamber of the Constitutional Court of 31 May 2018, the applicant Valeria Lutkovskaya was denied the opening of the constitutional proceedings (Verkhovna Rada of Ukraine, 2018, Case No 1-77 / 2018 (4117/17)).

The question of the application of case law in Ukraine, the decisions of the European Court of Human Rights in domestic jurisprudence, is actively discussed by scholars and practitioners. The Methodological Recommendations for Central Executive Bodies on the Application of the Convention on the Protection of Human Rights and Fundamental Freedoms in law-making, prepared by the Ministry of Justice of Ukraine, state that for 50 years the controlling body of the Convention - the European Court of Human Rights - has been in its decisions were accepted, each article of the Convention was explained in detail. These decisions constitute the case-law of the European Court of Justice (Ministry of Justice of Ukraine, 21 November 2000, no 40). For States Parties to the Convention, the knowledge and use of the jurisprudence that has arisen in the application of its rules is a prerequisite for compliance with the international legal obligations arising from this act. Specific court decisions are formally binding only on those States which are responding in specific cases. However, other countries are guided by them in assessing their domestic legal order's conformity with the requirements of the Convention. In some cases, these decisions have prompted States that were not parties to the case to improve their legislation and enforcement practices. Besides, as interpreted by the European Court of Human Rights, the Convention is not a fixed once and for all document, but a "living" treaty, which is subject to the interpretation given the current situation.

Based on the before mentioned arguments of the Guidelines, it emphasized that the decisions of the European Court of Human Rights can be used not only in law-making but also in the law-enforcement activities of the state. Moreover, it is a general conclusion that the very ratification of the Convention, and therefore its recognition as a part of national law, indicates recognition at the legislative level of case law in the State since the Convention itself is a sophisticated and complex legal mechanism for the protection of human rights, including ECtHR's judicial practice. Undoubtedly, the fact is that even indirect application, where the national Court does not directly refer to a specific ECtHR decision but uses its legal positions, concepts, interpretations of human rights conventions, and guarantees of those rights in its decision. The range of substantive content of the problem of judicial precedent in Ukraine's national legal system is wide enough, and this is confirmed by the heated discussions among theorists and practitioners. However, one of the critical questions remains: what source - main or additional - is ECHR practice. This question will stand in the domestic doctrine of both constitutional and international law as such, to which there is no clear answer.

To clarify these aspects, two main approaches should be pointed out: 1) recognition of such precedents as only decisions in cases against his state, and 2) recognition as precedents for national law enforcement practice of all ECHR decisions. Pursuant to Article 17 of the Law of Ukraine "On the enforcement of judgments and the application of the case-law of the European Court of Human Rights" of 23 February 2006, the courts

apply the Convention and the Court's case-law as a source of law when considering cases (Verkhovna Rada of Ukraine. Vidomosti of Verkhovna Rada of Ukraine, 2006, no 30). Ukraine is one of the few Council of Europe states that directly regulated the practice of implementing ECtHR decisions by a separate law. The ratification of the Convention for the Protection of Human Rights and Fundamental Freedoms, and the recognition at State level of the bindingness of decisions of the European Court of Human Rights, indicate that the judicial component of the system of sources of domestic law is actually objectified in the system of legal regulation. The latter is conditioned by the fact that in today's realities an "image of law" is formed, which does not always correspond to the content of existing laws and which requires judicial legal interpretation, completion and, most often, the correction of defective ("obsolete") laws. There can be no doubt about the need for the courts of Ukraine to apply the Convention and the case-law of the European Court of Justice in order to prevent further violations by Ukraine of its obligations. However, in practice, many issues arise in the process of applying the provisions of the Convention and the case-law of the European Court of Justice. Thus, some of the provisions of the Law of Ukraine No. 3477-IV "On the Enforcement of Decisions and Application of the Practice of the European Court of Human Rights" of 23 February 2006 continue to be debatable: experts note that its provisions cause conflicts and have some gaps (Verkhovna Rada of Ukraine. Vidomosti of Verkhovna Rada of Ukraine, 2006, no 30). There is an urgent need (both in the doctrinal and practical dimensions) to understand two key positions. First, what place in the hierarchy of domestic law does the ECHR have? Second, can the provisions contained in ECtHR decisions taken in cases where Ukraine is not responsible be considered a source of Ukrainian law?

The situation is somewhat ambiguous with regard to ECHR decisions. Because of the entry into force of the above Law, ECtHR practice has acquired the status of a source of law and can be used by the courts of Ukraine as a source of law in the administration of justice; however, Law No. 3477-IV does not explicitly specify the application of ECtHR decisions in cases against Ukraine. On the other hand, the law also does not prohibit the use of references to ECtHR decisions taken in cases against other countries. In addition to the issue of defining clear procedures for the application of ECtHR practice in the domestic legal system, it should be noted that harmonizing the rules of national law and the provisions of the Convention, to bring to the common denominator all the diversity of European Court of Human Rights case-law is sometimes tricky. In particular, one of the problematic factors is emphasized by the authors of a new draft Council of Europe project, the compilation "National Jurisprudence on Internal Movement: Applying Council of Europe Standards" (project manager G. Khrystova), noting that the adoption by the Supreme Court, of course, is a positive aspect. International standards for many decisions that have become a signpost for the first instance and appellate courts. However, the authors note that, unfortunately, the sheer volume of jurisprudence has not been substantially reflected and influenced in the formulation and improvement of relevant legislation. Moreover, there has recently been a worrying tendency for non-enforcement of court decisions (National jurisprudence on internal displacement: application of standards of the Council of Europe, 2019, 20).

Furthermore, this is not an exception. Quite a formal mention, a simple listing in a court decision of one or another of the ECHR rulings or its individual positions without their analysis, often without citation and without relevant comparison to the specific circumstances of the case, established by the Court, indicate an ineffective, almost abstract way of using the ECHR practice in national case law. It has to be stated that quite often, in court decisions of such courts, such formal references are more likely to create the illusion of authority, reasoning, persuasiveness, or even merely “tribute to fashion.” All this is a subjective problem of applying the ECtHR’s practice in domestic justice. Nevertheless, today, in the unanimous opinion of the experts, the language barrier is an essential objective problem for the effective use of ECtHR practices in national courts. The practical absence of official translations raises even seemingly minor issues that are quite fundamental, such as the inability to use the ECtHR’s case-law by a majority of Ukrainian judges, or cases of unqualified interpretation of European Court decisions, non-professional translation of ECP decisions, from the context of the judgment of specific facts, beneficial to one or the other. It is advisable, in the not too distant future, to address this problem in two possible interacting ways: 1) modelling an effective mechanism for translation and publication of court decisions; 2) creation of a proper scientific and technical base for raising the general level of knowledge of English, first of all, judges, lawyers, lawyers in general. On the issue of bringing the contents of European Court decisions to the attention of citizens, it would also be resolved with the introduction of a translation and publication mechanism.

The new challenges posed by the aforementioned problems with the application of ECHR provisions and ECtHR decisions are being explored deeply by authoritative domestic scholars, both constitutionalists, and internationals. Thus, the authors of the Analytical report on the results of the study of the application of the ECHR by Ukrainian judges and the practice of the ECtHR conducted by the NGO “Institute of Applied Humanitarian Research” in December 2015 – November 2017, prof. Boromensky M.V. and prof. Serdyuk O.V. (2018, 57) in the Recommendation on Legislative Changes emphasize the need to “revise the plenum of high courts with regard to the application of international treaties, wherein separate sections an interpretation of the significance of such a source of law as the decisions of international courts should be given, with clear indications as to the status of those courts. whose jurisdiction extends to Ukraine”.

Analyzing court decisions of domestic courts, the authors identified a number of typical errors and violations of the application of ECtHR practices, such as selectivity of ECtHR practices; references to general principles and interpretations, ignoring the ECtHR’s terms and conditions; confusion and unclear understanding of the legal position of the ECtHR: the problem of distinguishing between *ratio decidendi* and *obiter dictum*; justification for “excessive formalism” with reference to the interpretation of the ECtHR; a reference to the general provisions and interpretations of the ECtHR as a substitute for an analysis of the facts of the case; going beyond the legal position of the ECtHR: erroneous or irrelevant circumstances of interpretation of the decision; applying the ECtHR decision by analogy; the contradiction between the ECtHR’s legal position and the decision.

Concerning the role of national judges in ensuring the useful application of international and European law, the Opinion of the Advisory Council of European Judges No 9 (2006) is of relevance to the Committee of Ministers of the Council of Europe, which states in particular that national law, including national jurisprudence, not only do they have to comply with the case-law of the European Court of Human Rights. Where appropriate, the case should be reopened after the European Court of Human Rights has found a violation of the ECHR or its protocols during the trial, and such violation cannot be reasonably remedied or compensated by any other means than through a new hearing. Thus, at present, there is no unity in domestic legal doctrine on understanding the general issue of the place of ECHR decisions in the legal system of Ukraine. As a consequence, the single domestic practice of applying ECtHR decisions has not been established, which complicates the application of ECHR provisions and ECtHR practices.

In most cases that are dealt with annually by the European Court of Human Rights, the issue of law is not open to debate. In most cases, disputes relate to the factual side of the case, as each party seeks to substantiate the similarity of the circumstances of the dispute under consideration with the factual circumstances in which the relevant court decision was taken. To determine the ratio decidendi of the judgment means determining «whether the case contains the answer to the question raised by the dispute.» The application of ratio decidendi is only possible where the essential factual components of the dispute or situation in question do not differ from the relevant circumstances of the case that has already been decided. Moreover, these facts should play a key role in justifying such a decision in the past. Therefore, domestic courts may conclude that a precedent of the European Court of Human Rights cannot be used if they find that the relevant cases differ in some critical factual circumstances, even if they appear to be very similar in external terms.

Analyzing the legal nature of the decisions of the European Court of Human Rights, their legal force, place in the system of sources of law in general and in the hierarchy of sources of law when applied by Ukrainian judges L. Moskvich states: «not only the decision of the Court acts as a source of law for Ukrainian courts, but only part of it - ratio decidendi containing a legal interpretation of a rule of the Convention. It is the inability of Ukrainian judges to distinguish amongst the Court's numerous rulings those relevant to its case-law and containing ratio decidendi, which concentrate the Court's doctrinal approaches to the interpretation of Convention's rights and freedoms is one of the key reasons for the Court's misapplication of national practice» (Moskvich, 2014, 27: 333.).

Besides, the specifics of interpreting the provisions of the Convention for the Protection of Human Rights and Fundamental Freedoms in domestic jurisprudence are often based on a particular situation. This is manifested in the “subordination” of the principle of dynamic interpretation, in the maximum deterministic interpretation of specific historical circumstances when implementing the relevant rules. In particular, in the case of the Constitutional Court of Ukraine on the constitutional appeal of citizen Soldatov G.I. regarding the official interpretation of the provisions of Art. 59 of the Constitution of Ukraine, Art. 44 of the Criminal Procedure Code of Ukraine, Art. Art. 268, 271 of the Code of Administrative Offences of 16 November 2000,

taking the provisions of Art. 6 of the Convention for the Protection of Human Rights and Fundamental Freedoms, Art. 2.14 of the International Covenant on Civil and Political Rights, “Basic Principles on the Role of Lawyers,” adopted by the Eighth United Nations Congress on the Prevention of Crime and the Treatment of Offenders in 1990 (Principles 1, 19), the Constitutional Court of Ukraine interpreted the provisions of Part One Art. 59 of the Constitution of Ukraine that “everyone is free to choose the defender of their rights” as the constitutional right of the suspect, accused and defendant in defense of the prosecution and of the person holding administrative responsibility, in order to obtain legal assistance to choose a person to defend their rights, who is an expert in the field of law and is legally entitled to provide legal assistance in person or on behalf of a legal entity.

Thus, in one of the decrees of the panel of judges of the court chamber in civil cases of the Court of Appeal of Lugansk region (08.04.2013, no 437/1753/13-c) stated: “Based on the principle of interpretation of the case-law of the European Court of Human Rights, the panel considers that according to the case file there is a case of restriction of the right of a party to the availability of justice, enshrined in Art. 6 of the Convention for the Protection of Human Rights and Fundamental Freedoms, the proper enforcement of which, by its legal significance, is more important than the obligation of a party to be interested in pursuing its case, which is not governed by formal domestic procedural law”.

In Ukraine, a sufficient legal framework is in place for the proper application of the case law of the European Court of Human Rights and the interpretation of human rights provisions, taking into account the standards and approaches developed at the national level. At the same time, such legislative dynamics do not yet have the expected legal and social effect. Since the case-law of the Court is rarely applied by the courts of general jurisdiction in interpreting human rights, such application is often of a formal nature. In most cases, judges show a lack of understanding of the systematic nature of the Court’s legal positions on specific human rights, an inability to distinguish them from other provisions of the text of ECHR rulings, as well as due knowledge of the principles and doctrinal approaches underlying the jurisprudence of the Court. Ascertaining this order, I. Kretova (2015) expresses the opinion that the “ambiguity” of legislative regulation is practically eliminated today. However, it must be acknowledged that the absence of “certain instructions” regarding the application of the Court’s case-law in the context of an underdeveloped legal tradition of case law does complicate its practical impact on the national legal order. Undoubtedly, the role of courts and other bodies in these processes depends on the national legal framework, that is, on the legal status and, as a consequence, the role of the Convention in national law, and on the opportunities afforded by national law for the application of international human rights standards in the administration of justice. The Convention does leave the States complete discretion as to the means of implementing its provisions since, in international law, States are responsible for the ultimate result of implementation - the protection of human rights and the effectiveness of their protection (Khrystova, 2019, 20).

In situations where the Court finds that there is no European consensus on such debating issues as, for example, euthanasia (ECHR, 2011, Case of Haas v. Switzerland), medical and legal definitions of the beginning of life (ECHR, 2010, Case of A, B and C v. Ireland), possible restrictions on freedom to profess one's religion or belief, it declares subsidiarity and in matters of common policy concerning which in a democratic society, opinions may differ significantly, with a particular role for the national legislator, leaving states with wide discretion in these areas. Analyzing the decision in the case of SAAS v. France. Court has summarized and summarized in a separate section of its judgment the basic principles which is outlined in its precedents during its longstanding practice. The Court practically meant the creation of some general comment made by the Court itself, which in the future will be referred to as a basic list of rules and principles regarding the guarantee by States of the rights of the person. to freedom of thought, conscience and religion.

Therefore, effective implementation of the ECtHR case law, especially the Court's legal position on the content of the rights and freedoms guaranteed by the Convention, can only be achieved if the responsible persons of the State are adequately trained and constantly aware of the Court's case-law, adequate translation and publicity of the Court's case-law, including in other States, its systematization concerning the subject matter and systematic updating. Given the fact that the case-law of the European Court of Human Rights is exceptionally voluminous (more than a thousand decisions a year), in Ukraine, this practice should be systematized, for example, in the Official Classifier of precedents (legal positions) of the European Court of Human Rights. Although an official publication of the Court's judgments of significant importance has already been initiated at the state level, it does not replace the Official Classifier.

It is also advisable to create a terminology dictionary for European justice, which would define the main terms of the Convention on Human Rights, as well as the concepts used in the judgments of the European Court of Human Rights. In addition, the study of such decisions allows practitioners to analyze more deeply the legal principles and legal arguments that have been used in appropriate situations and to reach a more legally justified decision in this particular case. As a rule, the printed court rulings give a very detailed account of the circumstances of the court cases considered. These rulings present an almost complete version of the events that occurred before the case went to trial. Analyzing such collections, we can state affirmatively that the argumentation of each party's position with reference to the relevant decision of the ECtHR seems rather convincing and often causes, at least mentally, to question the opponent's opposite position. In order to enhance the capacity of national courts to apply the case-law of the Court, including the doctrinal approaches it has developed, in interpreting national human rights provisions, reference should be made to Opinion 9 (2006) of the Advisory Council of European Judges on the role of national judges in ensuring the effective application of international and European law. Paragraph 25 of this Opinion emphasizes that national courts are responsible for the application of European law. They are in many cases, required to apply it directly, as well as interpreting national law in accordance with European standards. On the other hand, the rules of the Convention are

norms of direct effect, so the case-law of the European Court of Justice is created and operated within its provisions and protocols, based on the interpretation and application of its rules. The judgment of the European Court is like a “shadow” of an interpreted article of the Convention, which is inextricably linked to it. The format of the European Convention and the mechanism that ensures the functioning of its provisions - the case law of the European Court of Justice - create a kind of legal circle - the Convention cannot exist without its interpretation by the European Court, and the European Court cannot create without the Convention.

With regard to the Ukrainian judiciary, there are many serious difficulties in applying the ECtHR decision in practice. Considering ECHR decisions as part of national legislation, we face the problem of bringing these decisions in accordance with the requirements of the Constitution of Ukraine to the public. One of the main problems is to ensure that national judges have a published translation of the full text of ECtHR decisions. According to Art. Eighteen of the Law of Ukraine “On the Enforcement of Judgments and the Practice of the European Court of Human Rights” (hereinafter amended), courts should use the official translation of the Court’s judgment, published in the official edition, or, in the absence of translation, the original text. The performance of this function is entrusted to the state body responsible for the organizational and financial support of judges. Official translation and publication of the full version of the ECHR rulings The Law of Ukraine “On the Enforcement of Judgments and the Practice of the ECtHR” of 23.02.2006 is a “specialized legal issue in the Court’s practice, which is widespread in the legal profession” (Part 1 Article 6). However, in the domestic legal field, there is no information on the state of provision of courts, respectively, other lawyers, with official translations of court decisions. This is the main reason for the inefficiency and inconsistency in the application by the European Courts of the case-law of the European Court of Human Rights and its interpretation at its discretion.

To illustrate the above, let us consider a rather typical situation that occurred in the application and interpretation of one of the fundamental European values, such as the right to property, that is, the “right to peaceful possession of one’s property”, defined in Art. 1 of Protocol No. 1 to the Convention for the Protection of Human Rights and Fundamental Freedoms. In particular, this article states that every natural or legal person is entitled to the peaceful enjoyment of his possessions and that no one may be deprived of his property except in the public interest and under the conditions provided for by the law of a State Party and by the general principles of international law. In considering the case of the Industrial-Financial Consortium “Pridneprovya” on 1 February 2003, the Supreme Economic Court of Ukraine issued a Decree recognizing the ownership and obligation to take specific actions (Unified register of court decisions). In the instant case, the High Commercial Court of Ukraine found it necessary to uphold its legal position and apply ECtHR jurisprudence in national law as an instrument of the ECHR’s functioning, which is part of Ukraine’s national law. In particular, the Supreme Economic Court of Ukraine referred to the ECtHR judgment of 4 June 2003, “Stretch v. the United Kingdom of Great Britain and Northern Ireland”. The essence of the aforementioned decision of the Court is that the invalidation of the contract according to which the buyer received

property from the state, and further deprivation of this property (on the ground that the state body violated the law when concluding the contract) is inadmissible.

In the process, the ECtHR's decision was cited as an argument used by one of the defendants' attorneys. However, the Supreme Economic Court of Ukraine did not consider this argument, stating that "... the application by the courts of the first and appellate instance of Art. 1 of Protocol No. 1 to the Convention for the Protection of Human Rights and Fundamental Freedoms and the judgment of the European Court of Human Rights of 24 June 2003 on *Stretch v. United Kingdom* is groundless, since this article of the Protocol deals with the protection of the property rights of the owner, and in the said decision of the European Court of Human Rights states that the local administration has exceeded the powers to deprive a citizen of the right to extend (prolong) the land lease...".

In February 2010, the Kyiv Commercial Court of Appeal, in considering the case for the recognition of a right and the transfer of rights and obligations under the contract, also applied the aforementioned ECtHR judgment in the case of *Stretch v. United Kingdom of Great Britain and Northern Ireland* dated 24.06.2003. In deciding the case, the Kyiv Commercial Court of Appeal referred to the decision in the case of *Stretch v. United Kingdom of Great Britain and Northern Ireland*: a lease was concluded between the claimant and the local authority. After the expiration of the lease, the plaintiff tried to exercise his right to continue the lease, but the local government body informed that the preliminary decision had been made with an excess of powers and did not allow the applicant to realize the right under the lease of the land plot to continue this right to continue. Thus, the Economic Court of Appeal did not take into account that in considering *Stretch v. The United Kingdom of Great Britain and Northern Ireland*, the ECtHR assumed that the tenant's right to extend the lease was a leaseholder. The Court also unreasonably interpreted the ECtHR's legal position on the fact that the tenant's property right under the lease was "property" within the meaning of Art. 1 of Protocol No. 1 to the ECHR and is applicable to the protection of property rights.

Analyzing all of the above, it can be stated that in the analyzed cases, the Ukrainian courts have interpreted the same ECtHR decision differently, resulting in a violation of one of the conceptual principles - the unity of interpretation and unambiguous application of ECtHR practice. After a large number of judgments against Ukraine at the European Court of Human Rights, which were the logical consequence of the position of inconsistency in the application of ECtHR practices by the Ukrainian courts, interpretation of its rights at its own subjective discretion, the issue of correct interpretation of international treaties finally became especially relevant, and on 19 December 2014 The Plenum of the High Specialized Court of Ukraine for Civil and Criminal Cases approved the Resolution "On the application of international treaties by the courts in Justice" which provided clarification to the courts to ensure the correct and uniform application of international treaties. In particular, the High Specialized Court of Ukraine emphasized that part of the national legislation is not only international treaties ratified by the Verkhovna Rada, but also those whose consent to bindingness is given in another form by which the state expresses its consent to the binding treaty

for it. The aforementioned Ordinance also states that a court's misapplication of the rules of international law may be the basis for the annulment or change of judgment, and the decisions of international organizations, some specialized bodies, may be used to interpret such rules. Adoption of this resolution may have the effect of raising the level of Ukrainian justice, bringing it closer to European legal standards and giving the parties to the dispute additional opportunities to protect their rights by applying international law more effectively.

Conclusions

The totality of these points leads to a logical conclusion. Despite the legislative consolidation of the status of ECtHR decisions as a source of law in Ukraine, the factors hampering the proper application of ECtHR practices are the lack of a systematic and valid methodology for formulating and motivating court decisions using an effective interpretative interpretation ECtHR with reference to specific decisions.

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The Scope of Labour Law in Ukraine

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Abstract Taking into account the general historical past, the paper examines current issues of the scope of application of labour law in Ukraine. The article aims to study the legislation governing the labour activity of special categories of persons, who do not have the status of an employee (civil servants, military, police officers, judges, etc.). The authors also pay attention to bogus self-employed, who perform work personally and are more or less economically dependent on a single principal/employer arguments. Based on analysis, both negative and positive tendencies related to the sphere of application of labour law were identified. It has been established that the scope of labour law in Ukraine is characterized by its constant dynamics. The outdated legal structure of the current Labour Code of Ukraine does not display the situation of legal regulation of work activity that has changed and ignores the existence of new special legal acts. It is concluded that despite the fact that at the beginning of the 21st century the scope of labour law has narrowed, at the moment, the prerequisites for its gradual expansion are being traced. Considering the fact that issue of adopting a new Labor Code in Ukraine is still open, the authors expect that, when developing a new Code, the legislator will focus properly on the scope of application of labour law according to the modern tendencies in this sphere.

Keywords: labour law, scope of labour law, employment contract, employment relationships, legislative activity.

JEL Classification: K31.

Introduction

The issue of the scope of labour law has existed since the inception of this branch of law. This fact can be easily traced through the example of existing international standards. For example, the first ILO convention – Hours of Work (Industry) Convention, 1919 (No. 1), defined the scope of its application by means of such a category as “industrial

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enterprises”. Under industrial enterprises, the Convention implies: (a) mines, quarries, and other works for the extraction of minerals from the earth; (b) industries in which articles are manufactured; (c) construction, reconstruction, maintenance, etc.; (d) transport of passengers or goods by road, rail, sea or inland waterway. In turn, the latest ILO convention – Violence and Harassment Convention, 2019 (No. 190) already uses the broader term – “world of work”. This term covers employees, as well as persons working irrespective of their contractual status, persons in training, including interns and apprentices, workers whose employment has been terminated, volunteers, jobseekers and job applicants, and individuals exercising the authority, duties or responsibilities of an employer. As we can see, the last ILO convention treats the scope of labour law much broader.

If we trace the history of the scope of application of labour legislation in Ukraine, we can see that it is unstable in nature. All Labour Codes of the 20th century (Codes of 1918, 1922 and 1971) contained a fairly broad scope of application of labour law. However, at the beginning of the 21st century, the situation began to change towards narrowing the scope of labour law norms.

The problem is complicated by the fact that since 2017 the Grand Chamber of the Supreme Court has made a number of legal positions on the jurisdictional nature of disputes over the dismissal of certain entities. In the absence of special labour courts in Ukraine, labour disputes in general are subject to review by the general courts in accordance with the rules of civil jurisdiction. At the same time, disputes concerning the dismissal of civil servants are subject to review by the administrative courts. The dismissal from the position of CEO can be challenged in the economic court in accordance with the rules of economic jurisdiction.

The paper will analyze the current issues of the scope of application of labour law in Ukraine, taking into account the labour activity of special categories of persons – civil servants, police officers, judges, prosecutors, CEOs etc.

1. The historical background of application of labour law in Ukraine

As we noted earlier, Labour Codes of the 20th century broadly interpreted the scope of labour law in Ukraine. If we look into the Labour Code of Russian Soviet Federative Socialist Republic of 1918¹, we can see that in spite of the fact that it proclaimed labour duty for all citizens, the Code also established that its provisions apply to all persons working for remuneration and are obligatory for all enterprises, institutions and establishments, as well as for all individuals who use other people’s labour for remuneration².

The first codified act which formally regulated the employment relations on the territory of modern Ukraine was the Labour Code of Ukrainian Soviet Socialist Republic of 1922. According to the Article 1 of the Code, its provisions apply to all employed persons, including home-based workers, and are mandatory for all enterprises, institutions

¹ Formally, this Code did not apply to the territory of modern Ukraine, but on the whole it had initial significance for the development of Ukrainian labour legislation.

² Code of Labour Laws of Russian SFSR of 1918 // Collection of legalizations and orders of the Workers and Peasants Government of RSFSR. 1918. No. 87-88. Art. 905.

and holdings (state, including military, public and private, including those who distribute work to perform at home), as well as for all persons using hired labour for remuneration³.

Despite a fairly clear definition of the scope of the Labour Code of 1922, the subsequent implementation of its provisions still left some room for scientific discussions. This mentioned the possibility of extending the labour law to collective farmers, whose activities also contained features inherent in the employment relationship. A Soviet researcher Nikolay Aleksandrov in 1948 wrote that the production-cooperative labour relationships, in contrast to the work-service relationships, are not an independent legal relationships, but are an integral part of a complex legal relationships, that are memberships especially in a collective farm⁴.

On July 15, 1970, the USSR Law “On the Approval of the Fundamentals of Legislation of the USSR and the Union Republics on Labour” was adopted⁵. The Articles 1 and 3 of the Fundamentals stipulated that Soviet labour legislation regulates the employment relations of all manual and office workers, the work of members of collective farms and other cooperative organizations is regulated by their charters adopted on the basis and in accordance with the Model Collective Farm Charter, the Model Cooperative Charter, as well as the legislation of the USSR and the union republics. Further these provisions were reflected in the Labour Code of Ukrainian Soviet Socialist Republic of 1971⁶, which is still in force in Ukraine with a significant number of amendments made to it.

The Labour Code of 1971 did not solve the problem of applying labour legislation to collective farmers, which disappeared only with the abolition of collective farms after the collapse of the USSR. But an interesting feature of this act was that it introduced the concept of manual and office workers, that allowed the Code to interpret the scope of its application broadly enough (e.g. the term “office workers” also covers the judges, prosecutors, police officers, etc.). Later, in 1991, the general term “employee” and a special form of employment contract that applied to certain categories of professions replaced the concept “manual and office workers”.

This special form of employment contract made it possible to cover by labour law many branches of professional activity that began to appear in Ukraine after its independence. These branches include civil service, National Guard, rescue service, senior staff of private companies, etc. For instance, under the letter of the Ministry of Labour and Social Policy of Ukraine No. 06/2-4/66, of 06.05.2000⁷, this form of employment contract was provided for work activities governed by 35 laws (e.g. Law on Police, Law on Civil Defense, Law on Notaries). The situation with the application of this special form of employment contract has existed since the beginning of the 21st century and was replaced

³ Code of Labour Laws of Ukrainian SSR of 1922 // Collection of legislations of Ukrainian SSR. 1922. No. 52. Art. 751. Appendix.

⁴ Aleksandrov N.G. (2009) The Labour Relationship. Monografy. Prospekt, Moskow. Pp. 243-244. (In Russian)

⁵ Law of USSR “On approval of the Fundamentals of Legislation of the USSR and the Union Republics on Labour” No. 2-VIII, of 15.07.1970. Gazette of the Supreme Soviet of the USSR. 1970. 29. Art. 265.

⁶ Law of Ukrainian SSR “On approval of the Code of Labour Laws of the Ukrainian RSR” No. 322-VIII, of 10.12.1971. <https://zakon.rada.gov.ua/laws/show/322%D0%B0-08?lang=en>.

⁷ Letter of the Ministry of Labour and Social Policy of Ukraine No. 06/2-4/66, of 06.05.2000. https://zakon.rada.gov.ua/rada/show/v4_66203-00.

by a new rule-making policy in Ukraine. In accordance with this policy, a significant part of the laws providing for the application of a special form of employment contract was canceled, and in the new ones that came to replace them, a completely different, not labour law direction of regulation relations of work was enshrined.

2. The modern trends of application of labour law in Ukraine

According to the most recent edition of the Article 3 of the Labour Code, the labour legislation regulates employment relationships of employees of all enterprises, institutions, organizations, regardless of ownership, type of activity and industry affiliation, as well as persons working under an employment contract with individuals. The peculiarities of the work of members of cooperatives and their associations, collective agricultural enterprises, farms, employees of enterprises with foreign investments are determined by legislation and their charters. At the same time, guarantees of employment, safety and health protection, labour protection for women, youth, persons with disabilities are provided in the manner prescribed by labour legislation.

As we can see the Labour Code does not fully answer the question of the scope of application of labour law norms. The situation is complicated by the fact that it does not give definitions of employee, employer and employment relationships. The Labour Code, in the Article 21, contains only a definition of an employment contract, according to which we can interpret these categories. In accordance with this Article, employment contract is an agreement between the employee and *the owner of the enterprise, institution, organization or its authorized body or individual (employer)*, under which the employee performs the work specified in this agreement, and the employer undertakes to pay the employee wages and provide working conditions necessary for the performance of work provided by labour legislation, collective agreement and agreement of the parties.

Therefore, from the analysis of the Code, we can conclude that the provisions of labour law apply to employment relationships, i.e. relationships based on an employment contract. In turn, there are other relationships, the basis of which is labour activity, but which may not arise on the basis of an employment contract. Unfortunately, the Code 'keeps silence' about these relationships.

The closest to the employment relationships are relationships associated with the *civil service*. This can be explained by two factors: a) according to the Article 5 (3) of the Law on Civil Service, the norms of labour legislation apply to civil servants in terms of relations not regulated by this Law; b) the Article 31-1 (14) of the Law on Civil Service provides two grounds for the creation of civil service relationships – the act of appointment and the contract.

It should be noted that in practice it is difficult to find a sphere of relations in the regulation of which it is possible to use the Article 5 (3) of the Law on Civil Service. After all, if we turn to the content of the provisions of this Law, we can see that it covers almost all aspects related to the service, namely: appointments, transfers, trips, wages, working hours, time of rest, disciplinary and financial liability, dismissal, etc. At the same time, the norms of the Law in regulating the relations of civil service are not always identical to the labour legislation. For example, according to the Article 42 (6) of the Law

on Civil Service is not allowed to send pregnant women on trips without their consent, although the Article 176 of the Labour Code in this case contains an absolute prohibition. However, the priority in regulating the legal relations of civil servants in the field of labour is given to the norms of special law, and norms of labour legislation are applied only in cases when the rules of special law do not regulate the disputed relationship, and when the possibility of such application directly specified in a special law. Nonetheless, a bit paradoxical is the fact of trade unions' activities and the collective agreements in the field of civil service, because due to the imperative regulation of special laws there is too little room for collective bargaining left.

Another controversial issue is the consolidation in the Law on Civil Service of the possibility of using two grounds for the emergence of civil service relationships – the act of appointment to the position and the contract on the passage of civil service. It should be noted that these two legal facts are quite different by their nature. The first is a striking example of the application of administrative law. The legal nature of the second is not clear. On the one hand, the law defines a civil service contract as a fixed-term employment contract, on the other hand, pointing out that the relations of the parties under this contract are subject to legal acts regulating only the relations concerning civil service⁸.

An interesting feature of the Law on Civil Service is that it regulates the legal status of *patronage service*, which does not apply to civil service. Under the Article 92 of the Law on Civil Service, the positions of patronage service include the positions of advisers, assistants, commissioners and press secretaries of the President of Ukraine, employees of the secretariats of the Chairman of the Parliament of Ukraine, employees of the secretariats of parliamentary factions, employees of the patronage services of the Prime Minister of Ukraine and other members of the Cabinet of Ministers of Ukraine, etc. The employee of the patronage service is hired to the position for the term of appointment of the person for whom he will perform patronage services. Employees of the patronage service are subject to labour legislation with the exception of: the possibility of extending a fixed-term employment contract for an indefinite period (if, after the expiration of the term of the employment contract, the employment relationship actually continues and neither of the parties requires their termination); preferential right to remain a job position in the case of redundancy; obtaining the prior consent of the trade union at the termination of the employment contract by the employer; etc.

Taking into account the above, it can be stated that there is no legal certainty in the issue of legal status of employees of the patronage service. This is also confirmed by the lack of a unified approach of the judiciary to the issue of jurisdiction of disputes involving such employees. In particular, in 2019, disputes on the dismissal of assistant judges (this position belongs to the patronage service) were considered in civil jurisdiction, which, according to the procedural legislation of Ukraine, is intended for labour disputes. At the same time, some similar disputes were also considered in administrative courts as disputes related to public service. Examining the issues of legal regulation of the labour in the public sector, we would like to pay special attention to

⁸ The Procedure for Concluding Contracts for Civil Service, approved by the Resolution of the Cabinet of Ministers of Ukraine No. 494, of 17.06.2020. <https://zakon.rada.gov.ua/laws/show/494-2020-n#Text>.

the *civil service of a special nature*, which in most cases is allocated by the militarized component of its passage. This type of service includes service in the national police, national guard, military, civil defense, etc. If we turn to the national legislation, we can see that it does not contain clear provisions on the application of labour law to the civil service of a special nature relationships.

For example, clauses 8 and 11 of the Final and Transitional Provisions of the Law on National Police establish that from the date of publication of this Law all police officers, as well as other employees of the Ministry of Internal Affairs of Ukraine are warned in due course of a possible future dismissal due to redundancies. The temporary disability of police officers or the use of leave is not an obstacle to their dismissal from the service in the internal affairs bodies. These rules completely contradict the guarantees reflected in Article 40 (3) of the Labour Code, according to which the dismissal of an employee at the initiative of the owner or his authorized body during his temporary incapacity for work, as well as during the leave, is prohibited.

Current legislation also separately regulates the *political positions*, which include the positions of members of the government of Ukraine (Article 6 (3) of the Law on the Cabinet of Ministers of Ukraine), as well as positions of First Deputy Minister and Deputy Ministers (Article 9 (5) of the Law on Central Executive Bodies). Despite the fact that work in such positions corresponds to all the features of employment relationships, provided, for example, ILO Employment Relationship Recommendation, 2006 (No. 198), labour law still does not apply to them, as explicitly stated in the above legislation. For instance, under the Article 6 (3) of the Law on the Cabinet of Ministers of Ukraine, labour legislation and civil service legislation do not apply to the positions of members of the government of Ukraine.

If we turn to *semi-political positions*, it should be noted that such a definition is not provided in the current legislation of Ukraine. However, in our opinion, the given term should cover the positions of government commissioners and commissioners of the President of Ukraine. These positions include: Commissioner of the President of Ukraine for Children's Rights, Government Commissioner for the European Court of Human Rights, Commissioner of the President for the Rights of Persons with Disabilities, Government Commissioner for the Rights of Persons with Disabilities, Government Commissioner for Gender Policy, Commissioner of the President of Ukraine for the Rehabilitation of Combatants, etc.

As a separate example in this case, we can consider the position of the Government Commissioner for Gender Policy, which approved by the Resolution of the Cabinet of Ministers of Ukraine No. 390, of 07.06.2017. Despite the fact that norms of Resolution indicate the special, in fact political, nature of the professional activity of the Government Commissioner, this position belongs to the sphere of regulation by labour law. This is due to the fact that the Government Commissioner works on the basis of an employment contract and included in the staff of the Secretariat of the Cabinet of Ministers of Ukraine. However, due to the fact that the peculiarities of the legal status of the Government Commissioner are fixed at the level of a special legislative act that does not sufficiently detail the labour rights and responsibilities of the person holding the position, in practice

there may be some issues related to with the need to develop job descriptions, determine the vertical of subordination, the procedure for termination of employment, etc.

By the way, the problem of lack of clear labour regulation is typical not only for semi-political, but also for political positions. Thus, the peculiarities of the professional activity of the members of the Government of Ukraine are disclosed in only five articles of the Law on the Cabinet of Ministers of Ukraine. It is clear that these articles will not be able to cover the full range of relationships that may arise in the performance of official duties by these persons (for example, they do not regulate working hours and time off work, social leaves, etc.).

The possibility of regulating the work of *judges* and *prosecutors* by labour law is fractionally traced in the Labour Code. The Code in some cases separately indicates the specifics of regulating the work of such persons. For example, in accordance with Article 222 of the Code, the peculiarities of consideration of labour disputes of judges and prosecutors shall be established by special law. According to the Article 32 (5) of the Labour Code, when transferring prosecutors, the peculiarities determined by the special law regulating their status are taken into account. Thus, based on the analysis of the above rules, which in fact establish exceptions for judges and prosecutors from the general legal regulation of the Labour Code, it is possible to extend all other provisions of the Code to the employment of these categories of persons. In turn, the Law on the Prosecutor's Office and the Law on the Judiciary and the Status of Judges do not enshrine in their norms the possibility of extending labour legislation to these categories of persons. In addition, these laws regulate in detail in their provisions issues related to appointment and dismissal, seniority, leave, pay, disciplinary action, etc. At the same time, if we analyze the above provisions, we can see that they are endowed with a completely different from the Labour Code the legal content.

It should be noted, that since the emergence of labour law, the question of its co-relation with civil law has always been the subject of lively scientific debate. And the grounds for such debate are added every year by national legislation and judicial practice. For instance, the decision of the Constitutional Court of Ukraine No. 1-rp/2010, of 12.01.2010, states that the corporate rights of the company's members to participate in its management, making decisions on the election (appointment), removal, recall of members of the executive body of this company also apply to the granting or deprivation of their authority to manage the company. Such decisions of the authorized body should be considered not within the framework of labour, but corporate relations that arise between the company and the persons entrusted with the authority to manage it⁹. Based on this decision, the current case law has followed a path that the relations arising when the founder (member) of the company performs the functions of its director, are corporate, and therefore there is no obligation to conclude an employment contract and pay wages¹⁰.

⁹ Decision of the Constitutional Court of Ukraine No. 1-rp/2010, of 12.01.2010. URL: <https://zakon.rada.gov.ua/laws/show/v001p710-10#Text>.

¹⁰ Resolution of the Eighth Administrative Court of Appeal No. 857/1476/19, of 14.03.2019. URL: <http://reyestr.court.gov.ua/Review/80455482>.

Another situation occurs when the hired head of the company (*CEO*) is a person who is not associated with the company by corporate rights. As an example we should cite the issue of legal regulation of CEOs of joint stock companies, as well as limited and additional liability companies. The provisions of the Law on Joint Stock Companies, which came into force in 2009, were the basis for the emergence of this issue. Under the Article 62 (4) of the Law, CEOs of the bodies of the joint-stock company are paid remuneration only on the conditions stipulated by both the civil law contract and employment contract concluded with them. Also, in 2018, the Law on Limited and Additional Liability Companies was adopted. The provisions of the Article 39 (7) of the Law provide for the possibility of concluding civil law contacts with CEOs of these companies instead of an employment contracts.

Thus, it can be seen that the provisions of the Law on Joint Stock Companies and the Law on Limited and Additional Liability Companies actually allow for the possibility of the occurrence of civil law relationships in those areas where labour law has always been applied. And despite the fact that these two legislative acts avoid specifics in procedural issues of application of civil law contracts to the regulation of labour of relevant CEOs, their ambiguity in the delimitation of the scope of civil and labour law may further “pave the way” for law enforcement practice, not in favor of the labour law. The current case law already confirms this statement. For instance, the Grand Chamber of the Supreme Court in its resolution, of 30.01.2019, concluded that the removal of CEOs of the company by its legal nature, subject of regulation and legal consequences differs from the suspension from work on the basis of the Article 46 of the Labour Code. The possibility of the authorized body of the company to remove a CEO from the performance of his duties is not contained in the provisions of the Labour Code, but in Article 99 of the Civil Code, therefore it is not a scope of regulation of labour law. Although such decisions of the authorized body may have consequences within the employment relationships, but determining in such circumstances, according to the judges of the Supreme Court, are corporate relationships.¹¹

It should be emphasized that in some cases, we can observe the scope of the expansion of labour law in those areas where this is not expected. This primarily concerns the work of prisoners, the regulation of which has undergone significant changes in recent years. It should be noted that the work of these categories of persons for a long time was not associated with labour law, due to the nature of the relationships, the participants of which are convicts. After all, such relationships are characterized primarily by punitive and educational nature. In turn, the existence of labour law cannot be imagined without the principle of freedom of employment contract, which is guaranteed by the Article 43 (1) of the Constitution of Ukraine. Under the provisions of this Article, everyone has the right to work, which includes the opportunity to earn a living by work, which he/she freely chooses or freely agrees. In turn, in 2018, the Article 118 (1) of the Criminal Executive Code was amended to provide that condemned to imprisonment have the right to work. Under this Article, the work is carried out on a voluntary basis by virtue

¹¹ Resolution of the Grand Chamber of the Supreme Court of Ukraine No. 145/1885/15-c, of 30.01.2019. URL: <http://www.reyestr.court.gov.ua/Review/79684982>.

of a civil law contract or employment contract concluded between convict and private entrepreneur or legal entity for which the convicts perform work or provide services. Such contracts are approved by the administration of the colony and must contain the procedure for their implementation. The administration is obliged to create conditions for the work of convicts under civil law contracts and employment contracts. At the same time, convicts who have debts under executive documents are obliged to work in places and at work determined by the administration of the colony, until such debts are repaid. It should be noted that the Article 118 of the Criminal Executive Code does not contain clear rules for distinguishing between the application of the civil law and employment contracts, which in practice may lead to a narrowing of the scope of the labour law.

If we talk about the scope of labour law, we should also pay attention to the *bogus self-employment*. This phenomenon has existed in the world for a long time. The costs associated with workers and self-employed highly differ. Hiring a self-employed person instead of an employee is cheaper. The price of hiring self-employed is unrelated to minimum wage or other wage-setting methods such as collective agreements. In the extreme cases, they receive remuneration less than the minimum wage. In addition to that, no social security contributions have to be paid when hiring self-employed. Also, the law obliges employers to live up to many expensive standards for employees such a compensation in case of dismissal, holiday payments etc.

The current labour law of Ukraine, unfortunately, does not say anything about this, which makes it possible to refer the work of self-employed person to the sphere of regulation by other branches of law, primarily civil law. Due to the fact that the bogus self-employment is often formalized – a person can register as a private entrepreneur or individual entrepreneur and pay due taxes, the practice of classifying this type of activity as employment relationships in Ukraine is not effective. Despite this, to the mentioned above persons do not apply guarantees provided by the labour law. These issues have given rise to a debate about the need for redefining the personal scope of labour law. In the wake of the increased importance of self-employment there are more and more arguments that the scope of labour law should be extended also to self-employed workers, who perform work personally and are more or less economically dependent on a single principal/employer.

Conclusions

If we look from a historical point of view at the scope of labour law in Ukraine, we will see that it has always been characterized by instability and dynamics. This circumstance cannot be considered negative. After all, the law should always serve social relations, and they always tend to change. This is very well illustrated by the labour law of Ukraine. If the greater half of the 20th century was characterized by the total coverage by the labour law of all relationships with the use of hired labour for remuneration, then in the 21st century the situation changed due to the emergence of new types of work activity, which are regulated by special, not labour, legislative acts. In turn, the outdated legal structure of the current Labour Code of Ukraine does not see that the situation of legal regulation of work activity has changed a long time ago. The

Code continues to live in the old way, ignoring the existence of new special legal acts. At the same time, despite the fact that at the beginning of the 21st century the scope of labour law norms has narrowed, at the moment, the prerequisites for its gradual expansion are being traced (e.g. this is observed in relation to convicts). This happened not because labour legislation was improved, but because the special, far from labour, legislation was amended.

If we talk about the prospects for reforming labour legislation, it should be noted that the issue of replacement of current Labour Code, which has been operating in Ukraine for almost 50 years, has been raised a large number of times. The drafts of the new Labour Code were registered in the Ukrainian Parliament in 2003, 2009, 2011, 2015 and 2019. It should be noted that these drafts were similar in terms of defining the scope of labour law, unfortunately leaving this issue unattended. At the moment, the issue of adopting the new Labour Code remains open, and we hope that in the future, when developing a new Code, the legislator will focus on the scope of application of labour law taking into account current trends in labour activity in Ukraine.

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COVID 19 and Credit Cycle: Evidence for Bulgaria

Kamelia Assenova*

Abstract The pandemic of COVID-19 has dramatically affected about every aspect of the economy. The credit cycle transforms from the record long benign to a stressed one. This paper seeks the access to credit from before the unexpected global health crisis to its immediate and extended impact and the performance of key indicators of the nature of credit cycles. The focus is on the non-financial corporate credit market. At the end of 2019 the firms increased their debt to take advantage of record low interest rates. After the unexpected global health crisis the conditions on the credit market deeply changed. From one site, credit has been used by governments as instrument for recovery of economy and it could be expanded the volume of credit. From other site, during the pandemic time, the demand of credit increases, but not due to effective new projects. By the balance sheet transmission mechanism, credit uses usually as tool to ensure the balance between in- and outflows in the firms during the financial crises. The higher demand raises the price of borrow money. It is change the position of the non-financial companies at credit market and credit cycle goes to new stage.

Keywords: COVID-19, credit cycle.

JEL Classification: E32, E51, G21.

Introduction

The pandemic of COVID-19 has dramatically affected about every aspect of the economy. The credit cycle transforms from the record long benign to a stressed one. This paper seeks the access to credit from before the unexpected global health crisis to its immediate and extended impact and the performance of key indicators of the nature of credit cycles. The focus is on the non-financial corporate credit market.

The capital market is under development in Bulgaria. The volume of bank credit is over bond lending. The absence of the latter (with a few exceptions) is one of the most significant reasons the borrowing for the companies (more middle and small) to come from Commercial banks. Due to it, this research investigates only bank lending of firms.

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1. Level of Corporate Debt as a portion of GDP and Equity before pandemic of COVID 19

In the corporate debt are included: bank credit – short and long, corporate securities – bond and short trade securities, trade credit and advances received. Before the pandemic of COVID 19 the corporate debt has high volatility: from 117% as a portion of GDP to peak in 2010 from 188 % from GDP and in 2014 – 181 % from GDP. From 2015 this ratio decreases. But corporate debt, has increased enormously to perhaps dangerous levels. It may provoke missed repayment installment and/or interest payments. For the banks risk comes from the “bad credits”. For bond ‘creditors new level of the debt results in a loss from par value, were increasing compared to prior years. For the companies raise default risk, which include distressed exchanges of credit and in the end may go to bankruptcies. Below is the total corporate debt as a Proportion of GDP in Bulgaria.

Table 1. Ratio Corporate Debt/GDP for period 2005-2018

Ratio Corporate Debt/ GDP	%
2005	117
2006	137
2007	161
2008	170
2009	179
2010	188
2011	180
2012	173
2013	177
2014	181
2015	158
2016	152
2017	143
2018	139

Source: National Statistic



Figure 1. GDP and Total Corporate debt for period 2005-2018 (mln BGN)

Source: National Statistic

Debt/ equity ratio changes from 299% in 2005 to 425% in 2018. The worst situation is in 2013. For the last year of investigated period the ratio is 125% more than in 2005.

Table 2. Ratio Corporate Debt/ Equity and other own capital for period 2005-2018

Ratio Corporate Debt/ Equity and Other own capital	%
2005	299
2006	325
2007	313
2008	328
2009	401
2010	406
2011	421
2012	453
2013	527
2014	446
2015	463
2016	441
2017	429
2018	425

Source: National Statistic



Figure 2. Total Corporate Debt and Equity, other own capital for period 2005-2018 (mln BGN)

Source: National Statistic

2. Theoretical approach

The credit transmission channel includes bank and balance sheet types. The bank credit channel is based on the understanding that banks play a special role in the financial system. The large companies can attract resources by selling commercial papers and other forms of credit by increasing their debt. The small and middle businesses have limited access to financial markets. They are not able to take funds from there. The gap between large and small firms widens mainly during a recession. Less access to other forms of credit markets than to banks makes small businesses extremely dependent on the actions of the banks and monetary institution.

The balance sheet channel focuses on the potential impact of changes in monetary policy on borrowers' balance sheets and their incomes, including their net wealth, liquid assets and cashflows. The firms often finance investments and current expenses by borrow and sometimes increasing their loans earlier in the economic cycle. The consumers also want to borrow at a time when their income is declining and when credit conditions are poor, and then the volume of credit increases. Such an inverse relationship is not contained in the credit channel theory, which requires firms and households to reduce their loans during the recession and after it.

3. Credit Storm before pandemic

Before the global health crises, overall economic and financial stability in Bulgaria leads to strong increasing of lending.

The crisis in the second half of the 1990s led to the suspension of any financial intermediation for some time. The policy followed, aimed at reducing inflation, high GDP and rapidly growing incomes and profits, exacerbated the need for credit, and changed banks' views on borrowers' requirements. The Enter of foreign banks to the market, as well as the strengthening of Commercial banks audit in the sector, led to a return the confidence of the public in banks, and hence an increasing of deposits. On

the other hand, improved economic conditions predetermined the growth of foreign cash flows, mainly coming from foreign banks in Bulgaria. All factors have led to strong need to find ways to invest accumulated funds to bring income. The changes in the credit cycle could be divided into several stages over the research period 2005-2020. During the **first stage** - the period 2005-2008 - the credit expanded. Together with the macroeconomic stability and the privatization of the banking sector can be mentioned following factors influence on supply of business credit:

- access to international capital markets;
- low interest rates on world markets;
- the decrease of the cost of the resource - as a consequence of the repeated increase of the country's credit rating;
- struggle to increase the market share of Commercial banks;
- higher savings;
- reducing of risk in the real economy due to the improved information environment.

The first stage is before the country's accession to EU. At this stage, the following factors have a strong influence on demand:

- Expected earnings growth, higher permanent income (according to Friedman's monetary theory) encourages increased consumer lending;
- The rise of real estate prices increases the demand for mortgage loans;
- Future participation in the European common market implies new investment in real assets to improve the competitiveness of local economy;
- The higher regulatory European requirements (for example - environmental) require additional investments to be financed with credit;

The **second stage** is after accession and before the crisis in 2008. At this stage the demand of business credit depends on following factors:

- Economic growth. Large numbers of projects with high returns are available and it allows to be financed at a higher price of the borrowed capital;
- Rising property prices due to increased demand. The part of it is local, driven by the level of savings in the country. Another reason is the rate of return by real estate investments. The part of the demand is formed by non-residents attracted to the local market by the high return on their investments;
- Sharp increasing of earnings;
- Low real interest rate.

The factors affect the supply of credit during the second stage is:

- Inflow from parent banks;
- Increasing local savings due to good economic activity;
- Low "price" of attracted funds;
- Low level of debt in different sectors;
- Positive economic results.

On the third stage - after the crises in 2008- the consequences of the growth of the deposit base require searching of ways for investing the accumulated funds are. It makes continued and very dynamic growth of lending by commercial banks. For

2010-2019 period business lending shows the following trends: low increase of the loans to 2.42% at the end of 2010, 5.43% - in 2011, approximately the same increase 4.99% - in 2012. In 2013 there is a strong contraction of corporate lending, with an increase of 0.07% at the end of the year. It is due to the slow and difficult recovery from the crisis and the still shrunken markets of the Bulgarian exports. The risk is kept at high level, which makes both companies and banks cautious. In 2014, as a result of problems in the banking system and in particular in one of the largest banks in the middle of the year, business lending sharply declined by minus 11.62% at the end of the year compared to the same period of the previous year. This trend has preserved in 2015. From 2016 to 2019 business bank lending increases with small pace between 1.01% to 1.06 percent on annual base.

During this period, the factors affecting demand of business lending are:

- Income fall or keep on the same level in real terms;
- Real estate prices have fallen;
- Increasing of BGN equivalence in foreign currency loans.

The factors influencing the supply during this stage are:

- Recovering part of the deposits lost by banks during the crisis;
- Reducing risk in the economy;
- Economic activity slowly recovers. The return of projects is increased and therefore companies tend to be financed at a higher cost of the loan;
- A positive outlook for income growth and a propensity for consumption, leading to increased willingness to use the loans and expand the share of market for the companies.

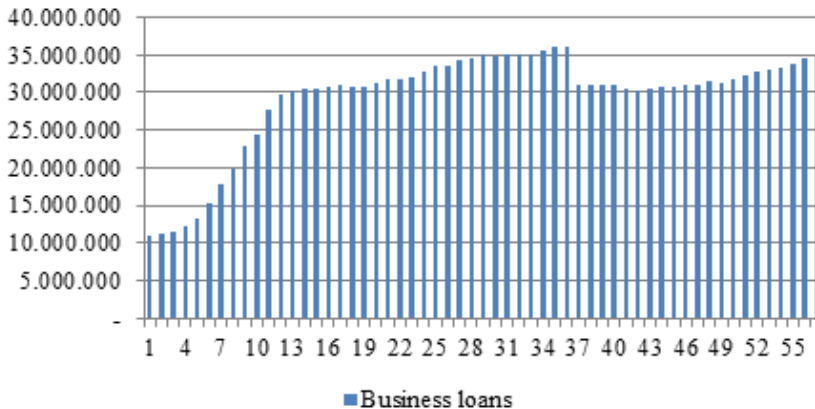


Figure 3. Corporate bank loans for period 2005-2019 (thousand BGN)

Source: Bulgarian National Bank

During this third stage the interest rate of bank loans decreases continually:

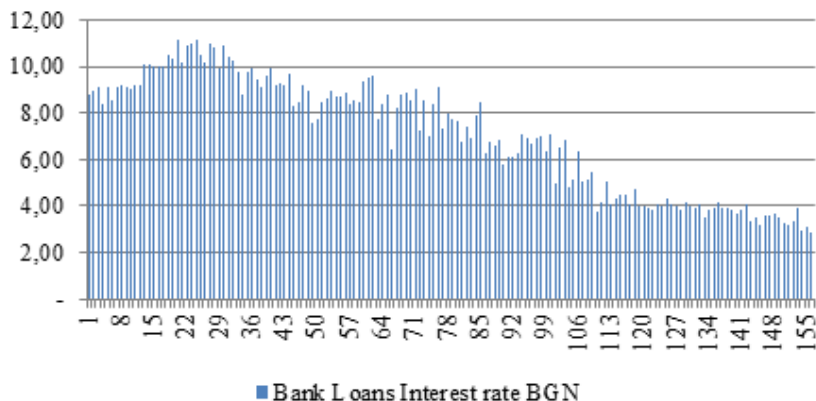


Figure 4. Corporate Bank Loans Interest rate BGN for period 2007- 2019 (%)

Source: Bulgarian National Bank

4. Credit cycle after the pandemic of COVID 19

After the start of health crises in China, local GDP sharply decline on the first stage of world pandemic. It made difficult functioning of supply chain to other parts of world. As it known, the world economy depends on the China delivery. As results it has declined produced supply in other part of world. On second stage, after the lockdown in more of countries all over the world, many sectors of economy were closed and it additionally reduces produced GDP in these countries. The Bulgarian economy as small and open economy is very sensitive to outside conditions. The lockdown in the many countries in the world impacts on Bulgarian Net export orientated mainly to the countries of EU. Their demand declines and it directly reduce Bulgarian GDP. During the pandemic the investments in Bulgaria collapsed due to expected recession all over the world. Third part of GDP – consumption also reduces. More consumers have temporarily or long time unemployed, the incomes were reduced due to insecure situation. All these efforts forced sharp reduction of consumption. The situation have not changed by withdraw of 1 milliard BGN saving from the banks. Last part of GDP – public spending does not compensate the lost by other three components of GDP.

The Bulgarian National Bank has introduces several measures, including following:

- “temporary moratorium on bank loans repayment, following the EBA Guidelines on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 crisis (EBA/GL/2020/02)
- The state Fund Manager for Financial Instruments in Bulgaria announced a new package of measures to support various business and public groups through financial instruments. The Fund will provide bank guarantees in of BGN 170 million (EUR 87 million), which should serve to secure a loan portfolio of up to BGN 850million. Loans under the scheme will have a term of up to 10 years and the possibility of interest-free loans....”¹

¹ European Commission, Directorate General Economic And Financial Affairs(2020), Policy measures

From other side, when businesses that have had to lay off workers need to start operating again and to see the demand for their products and services rebound quickly, if indeed they survive the downturn. The new stimulus package from the Government perhaps the catalyst for a change in the credit cycle. The companies may redirect payment installments for later period after lockdown and take new loans to cover differences between in- and outflows. They could take the credit to recovery the business.

Table 3. Loans' changes during the lockdown (quarterly)

Total and Corporate loans' changes during the lockdown (on annual base)	%	%
	March 2020	June 2020
Loans total	7,20	4,32
Business loans	5,42	1,85

Table 4. Loans' changes during the lockdown (monthly)

Total and Corporate loans' changes during the lockdown (on annual base)	%	%	%	
	April 2020	March 2020	June 2020	
Loans total	1,14	-	-0,23	0,49
Business loans	1,79	-	-0,45	0,19

Source: Bulgarian National bank

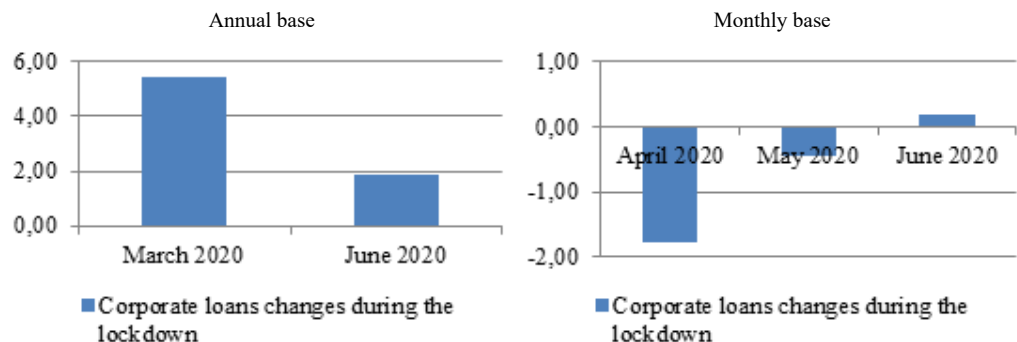


Figure 5. Corporate loans changes during the lockdown

Source: Bulgarian National bank

The fourth stage of the credit cycle is after the lockdown. During this period, the factors affecting demand of business credit are:

- The companies reduce their investments due to the stage of market;
- Negative tendency in Net Bulgarian export;
- Financing of negative cash flows;
- Income fall or keep on the same level;
- Unemployment;
- The factors influencing the supply are:
- Reducing of part of the deposits by banks during the crisis;
- Increasing risk in the economy;
- The return of projects is reduced;
- Economic activity freezes for several months. Therefore companies to be financed negative cash flow.

The interest rate of bank loans is with high volatility in the begging of 2020. After the pandemic of COVID 19 rate decreases sharply.

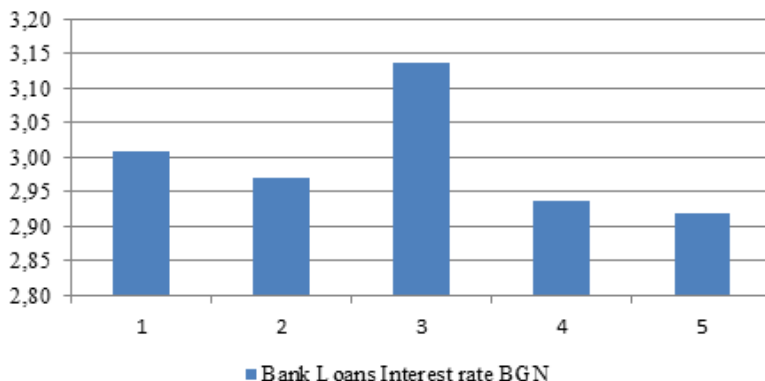


Figure 6. Corporate Bank Loans Interest rate BGN for period 2020/01-2020/05 (%)

Source: Bulgarian National bank

The Bulgarian economy could develop by two scenarios: slowly and difficult recovery or for short period of time returns to pre-pandemic level. The credit recognizes important role by two scenarios. The factors will change the demand of business credit:

- The recovery of economy will need new investments. It includes the relocation of some of them from China and Asia to USA and Europe. It hit Bulgarian economy too. These needs require new borrow from the banks, especially for small and middle enterprises;
- The recovery of supply chain after the pandemic will need new investments too;
- Liquidity problems for more of companies keep the tendency to take credits for balance of in- and outflow;
- Interest rate near zero level support to increases the credit to bridge through a period of economic disruption.

The factors will change the supply of credit after the pandemic are following:

- The role of Government is increasing. From one side, the Government introduces temporary regulatory adjustments to encourage and allow banks to expand their balance sheets to support businesses;
- The Government could provide banks with a cost-effective source of funding to support additional lending to the real economy;
- The eventual government financing or guarantee ensure low level of interest rate for lending;
- In other side, the risk in economy raises and it will keep the volume of credits for the real economy.

Conclusion

The pandemic of COVID-19 has dramatically affected just about every aspect of the economy. The credit cycle transforms from the record long benign to a stressed one. This paper seeks the access to credit from before the unexpected global health crisis to its immediate and extended impact and the performance of key indicators of the nature of credit cycles. The focus is on the non-financial corporate credit market. The capital market is under development in Bulgaria. The volume of bank credit is over bond lending and the absence of the latter (with a few exceptions) is one of the most significant reasons the borrowing for the companies (more middle and small) to come from Commercial banks. Before the global health crises, the corporate debt, were increasing enormously to perhaps dangerous levels. It may provoke missed repayment installment and/or interest payments. For the banks risk comes from the “bad credits”. By the bonds, for creditors it results in a loss from par value, were increasing compared to prior years.

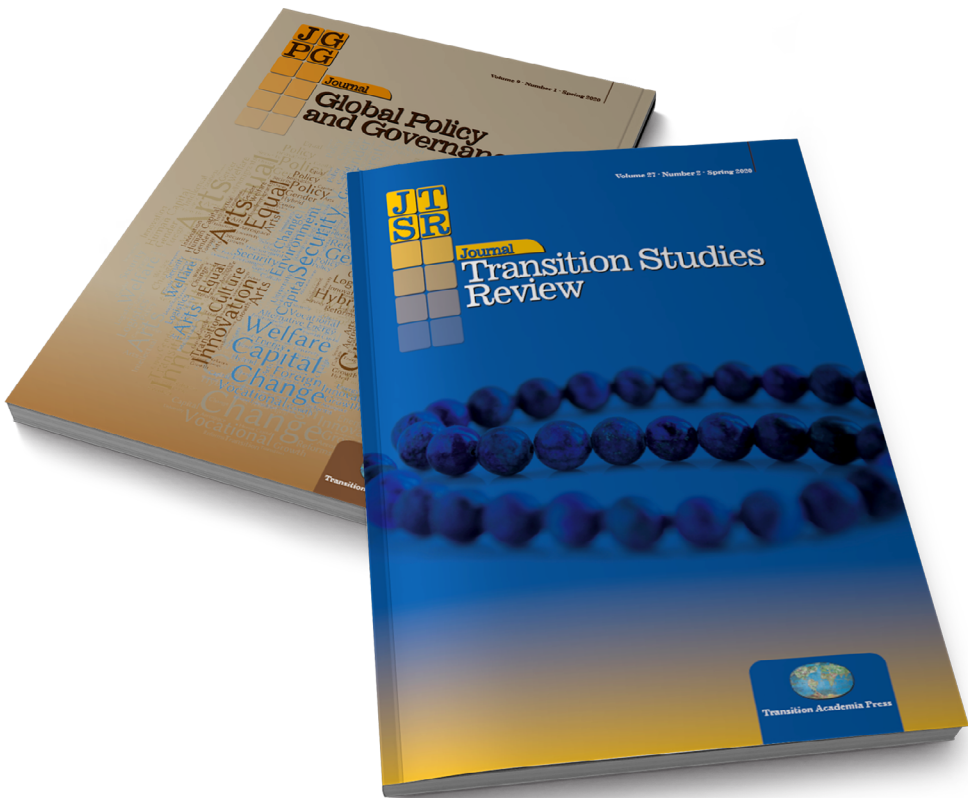
The Bulgarian economy as small and open economy is very sensitive to outside conditions. After the pandemic of COVID 19 the national economy depends on them. They impact on all sectors. The new stimulus package from the Government perhaps the catalyst for a change in the credit cycle. The credit cycle after the lockdown goes in new state with reducing the loans for a business for two months by the starting of the pandemic of COVID 19 and slowly raise after it for covering of liquidity gap and recovery the business activity.

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Modernization of Health Care Budget Allocation in Transitional Economies: Regional Practice Testimony

Irina Dokalskaya*

Abstract The Russian Federation has a multichannel budgetary and insurance health care financing which is characterized by the multiplicity of sources of funds and the inadequacy of each of them both individually and in amount for sufficient financial support. Such model is likely inadequate to the development of Russian practice of financial relations formation in the provision of health services to the population. In this situation, creation of a model of financial relations that would become adequate to the needs of the population and would consider the characteristics and nature of the various medical organizations in the regions, becomes a challenge. This paper, by using regional budget expenditures data, examines the practice of forming both the health care budget, and its expenditure structure in terms of implementing the program-oriented budget allocation principle as one of the important aspects of modernization.

Keywords: Health financing, Budget financing, Emerging markets, Expenditures allocation.

JEL Classification: H51, H61, P20, H50.

1. Introduction

The health care reform in Russia, launched in January 2015, was recognized as an unsuccessful: it is not only did not contribute to improve the quality of medical services provided to the population, but made them less accessible to the population¹. In fragmentation of views on approaches to solving problems of the health care system, which continue to take place (e.g., Chirkunov, Habaev, Komarov, Pidde, Roshal, Shishkin, et al.), the most relevant approach remains the implementation of effective solution of the problem of resource allocation in order to improve the availability and quality of health care.

For the purpose of this paper, we have examined the practice of forming the

¹ From the report of the special commission of the Accounts Chamber of the Russian Federation (prepared in the spring of 2015).

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program regional health budget, the structure of its components and the expenditures allocation in terms of implementing the program-oriented budget allocation principle. We have evaluated this practice taking into consideration the perspective of such an aspect of modernization as the implementation of the program budget execution practices. For the formation of analytical conclusions, regional budget expenditures by category classification were analysed, and the proportion occupied by the regional target programs in the budget structure area was calculated.

Background information was provided by public documentation related to annual reports, governmental studies, and internet literature concerning the process of the public budget reforming in Russian Federation and arising difficulties in this regard. We turned to the data of budget expenditures effectiveness; public health expenditure data, for instance, documentation related to the order of development, implementation and evaluation of targeted regional programs.

2. Background. Health care budget and distribution of funds

Health budget in the Russian Federation is annually developed by the Ministry of Health and the Ministry of Finance, on the basis of health costs analysis and needs of health care facilities that receive federal funding through taxes, and from the federal target health programs. In addition, the Ministry of Health and the Federal Fund of compulsory health insurance (CHI) calculate annual volume of funds required to provide a core set of free medical services (the program of state guarantees) for the country as a whole and for each region of the Russian Federation, adjusted for morbidity data. The results of calculations are approved by the Ministry of Finance. Then, on their basis, each region receives recommendations on health care costs for next year.

Level of employers' contributions to the CHI (Complementary Health Insurance) is defined by the federal authorities. The level of contribution of local authorities and non-workers² is not legally established, and each region establishes its own. In accordance with the Health Insurance Act, all contributions to the CHI, as well as contributions from local health authorities (derived from tax revenues, rental and other income) should be combined into a general fund of regional or local health. Usually, however, the authorities of the Russian Federation contribute only part of the funds needed to pay for health care of its population. As a result, funds of regional CHI system constitute only a third of the required two-thirds, but not two thirds of all costs on regional health. Local authorities, instead of paying CHI's part for unemployed people prefer to allocate funds directly to medical facilities, as thus it is easier to adjust their spending. Third of the costs on regional health (in particular, highly specialized medical care) is vested in the regional budget. The bulk of these costs goes to regional medical facilities and a small proportion - in medical institutions at the federal level.

Therefore, total funding of regional health depends not only on the recommendations of the ministries, but on the previous requirements of medical institutions (depending on personnel, the bed capacity and fixed costs), the ability

² This category includes the elderly, children, the disabled and unemployed citizens.

of the authorities to receive the income, well-established rules and methods for distribution of funds of the regional CHI system (taking into account the fact that local employers are not always able to fulfil their obligations under the CHI).

The relative role of the components of the Russian funds allocation's system, discussed above, varies from region to region: insurance and budgetary resources in each region are involved in the financing of health care to a different extent, which depends on local economic and political situation. This is also concerning the issue of inconsistencies between the available sources of funding from the state and the implementation of guaranteed free medical assistance to the population, as well as the development of the insurance industry and the relevant regulatory framework.

Local authorities in economically disadvantaged regions experiencing more difficulties. The attempts of the Federal Fund of CHI to equalize the conditions of health care financing in all regions of the Russian Federation is associated with the vastly different state of regional health budgets, and eventually a growing inequality. Whereas in economically successful regions the territorial CHI funds are operating better, and therefore uneven funding is compounded. Until the moment of the introduction of a single-channel financing (until 2012), only 5.5% of all insurance proceeds were allocated in order to equalize conditions of financing, which is, as noted by analysts, no more than a symbolic amount³.

Since 2012, changes a redistribution mechanism of mandatory health care insurance funds. Now, in order to align the financial support of the minimum (basic) part of CHI program among the regions, the entire volume of CHI funds received from insurance premiums at a rate of 5.1% initially accumulates in the Federal Fund and after transferred to the regions in the form of subsidies⁴, calculated on a uniform procedure for all regions. Wherein, they are having a right to exercise an additional financial support for basic tariff of CHI (above received subventions), as well as to introduce additional types and amounts of medical aid, financial support of which will be funded from the budgets of the Russian Federation regions.

In this situation local authorities choose different methods of allocation of funds. Basically, they combine new and old principles of financing, and the speed and success of the transition to new ways of working are extremely different in different regions of Russia. The main differences in approaches to modernize health care among the regions of the Russian Federation can be conditionally represented as follows:

- Introducing a mechanism of placement of municipal contracts (task-order) providing health care services
- Various embodiments of planning and coordination of health care volumes, in particular: by district principle; by the method of program-oriented planning of budgetary services; by records of real activity of surgical hospitals; on the basis of the approval medical office functions; with a specification by types of visits

³ This value consisted of interest payments received by the territorial compulsory health insurance funds (part of the contributions came in the territorial funds, the other - to the Federal Fund of compulsory health insurance to equalize conditions of the insurance fund in the Russian Federation).

⁴ Unlike grants, refundable in case of improper use or use during not previously defined timeframe.

(primary, recurrent, prevention, dispensary, home visits, etc.); in terms of cases of completed treatment in outpatient conditions that do not require all-day surveillance, considering surgery; implementation of a system of indicative planning of financial costs on the basis of uniform standards and norms of expenditure

- Testing of elements of single-channel financing of health care facilities through the compulsory health insurance system

The materials of the WHO European Office notes that in some regions, a new method of funding is not used at all, in others it moved only in a few areas, it is embedded in the third, but without the participation of insurance companies that are considered the compulsory health insurance scheme of financing disadvantageous for themselves.

2. Multilevel interaction of participants in the process of budget allocation: regional practice

At the beginning of work on the health budget draft for the next fiscal year there should be done the evaluation of the expenditure obligations of public authority within the framework of the register of expenditure commitments in the medium term. Then, considering the results of the selected scenarios of the development on the basis of forecasts of macroeconomic performance there should be evaluated a budget revenue opportunities in the medium term and, considering the results of the register of expenditure commitments, developed perspective (mid-term) financial plan.

At the same time, based on the available for each authority (local authority) budgetary resources and the priorities of development of territory in the medium term, established in policies, programs of its socio-economic development, the corresponding messages (including the budget) should be determined mid-term targets indicators of government (local authorities) of strategic nature. Document, which sets these parameters in conjunction with the amount of financial resources is a report on the results and main activities. Tactic works for the medium-term perspective (up to a set of specific activities), with clearly defined indicators, also in conjunction with the financial resources, should be determined in the budget (departmental) target programs.

The draft budget for the next fiscal year shall be prepared on the basis as currently applied forecast of the state of macro-economic parameters for the next year, and within the parameters of long-term (mid-term) financial plan and the expected strategic and tactical performance established for each of the public authorities (local governments). During the execution of the budget and budget implementation of targeted programs there should be formed (on a mandatory and regular basis), along with reporting on budget execution reports, reporting data on the achievement of the planned strategic and tactical performance of the authorities (local government). In order to be involved into the planning system (based on the results of recent activities of public institutions) there should be also planned and evaluated recent activities of public institutions by comparing the results of performance with funding at all stages of the budget process. The structure and the relationship between the participants in the process of planning and budgeting of the exemplified region is represented in scheme (Figure 1).

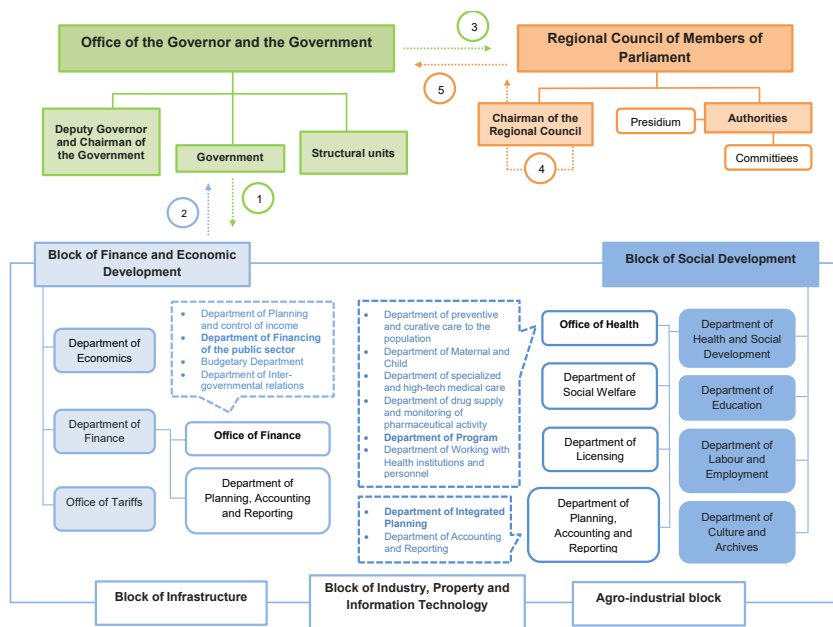


Figure 1. The interconnection of budget allocation' participants

Explanations: 1 - bringing the parameters of the socio-economic development of the territory; 2 - preparation of a draft of the expenditures; 3 - submission of the draft budget for consideration; 4 - approval and adoption; 5 – execution (i.e., approval of the report on the execution of the budget).

Source: Compiled by the author

In the process of drafting of the regional health budget and medium-term financial plan are involved: *Department of Finance* area (which, along with the Department of Economics and Office of Tariffs of Orel region constitute a block of Finance and Economic Development), *chief administrators of income* of regional budget revenues (bodies of executive power of the special competence), *recipients of regional budget* (departmental budgetary institutions, such as health care, education, etc.). Furthermore, doing this work, the public authorities performing the functions of non-budgetary authority. For example, the Department of Economics develops the forecast of socio-economic development, and its preliminary results of the expected socio-economic development for the current year, provides methodological guidance and coordination of the preparation of long-term projects of regional target programs. Organization of the draft regional budget provides the use of such planning tools as the forecast of socio-economic development, the main directions of budgetary and tax policy area, register of expenditure obligations, medium-term financial plan, etc. Since 2012 this list was supplemented by the public programs. And if the forecast of socio-economic development of the region allows to estimate the financial and tax potential of the territory (in terms of volumes of regional budget revenues for the next year), then the registry of the expenditure commitments reflects the “cost” side of the priority areas of government regulation. In this case, the predicted dynamics of socio-economic

parameters serves as a benchmark for determining these priorities, aimed at balancing the economic development, and these priorities, in turn, determine the change in the proportions of the budget allocation.

In order to execute the budgetary competencies, Orel region forms a system of legislative and regulatory acts, defining features of the budget process at the territorial level. If the duties and powers of the executive and financial authorities are determined primarily by the budgetary legislation, the content of the legal framework depends on the priorities of fiscal policy pursued by the region and the extent of implementation of modernization tools. Thus, the *highest executive authority of the region* represented by the Governor approves the order of the draft budget (budget and medium-term financial plan), formation and financial security of the state task, conduct the registry of expenditure commitments of the region, and also the order of development, approval and monitoring of the implementation of long-term programs.

The introduction into the budget process such tools as departmental target programs, medium-term financial plan, monitoring of the quality of financial management of chief administrators of budget funds⁵ (i.e., public authorities whose competence is realized in the budget process at the stage of its implementation in the formation of budget revenues) is carried out on the own initiative of the region.

3. Allocation of regional budget expenditures in the modernization context

The basic criterion for the classification of expenditures of the regional budget is departmental affiliation. Budget expenditures are differentiated by sections for each agency in accordance with the areas of activity (for example culture and cinema, public health, social policy, etc.). Within each area (or section) are allocated separate sub-areas (or sub-sections) (e.g., youth and health of children; inpatient care, high-technology medical care, outpatient care, social services for the population, etc.).

The Department of health and social development of the given as an example region provides for the expenditure of the following sections: “Education”, “Culture, cinematography”, “Health” and “Social policy”. Costs for the implementation of the interdepartmental investment program for 2018 were formed in a volume 94.4 percent of the specified plan, and the level of program activities, both federal and regional, were amounted to 23.3 percent of total expenditures.

Table 1. Classification of expenditure of the Department of health and social development

Indicator of budgetary classification	Section, subsection	Expenditures %
Education	0700	0,45
Culture and cinematography	0800	0,02

⁵ For example, the Regulation on assessing the quality of financial management of the main managers of the regional budget on July 22, 2011 № 229.

Indicator of budgetary classification	Section, subsection	Expenditures %
Health including:	0900	57,93
- <i>inpatient care</i>	0900	23,57
- <i>implementation of regional programs of modernizing of health care among the regions</i>	0900	5,78
- <i>hospitals, clinics, midwifery centers</i>	0900	15,28
- <i>maternity hospitals</i>	0900	0,76
- <i>implementation of public health functions</i>	0900	1,72
- <i>financial support for the purchase of diagnostic tools and antiviral medications for prevention, detection, treatment and monitoring and treatment of persons infected with human immunodeficiency virus and hepatitis B and C</i>	0900	0,21
- <i>purchase of equipment and consumables for neonatal and audiological screening</i>	0900	0,12
- <i>measures aimed at improving of medical care for patients with cancer</i>	0900	1,39
- <i>outpatient care</i>	0900	8,25
- <i>reserve funds</i>	0900	0,02
- <i>implementation of regional healthcare modernization programs</i>	0900	0,12
- <i>implementation of standards of medical care, increasing the availability of outpatient care</i>	0900	0,07
- <i>support of the subordinate institutions</i>	0900	0,13
- <i>hospitals, outpatient clinics, diagnostic centers</i>	0900	0,76
- <i>activities aimed at promoting a healthy lifestyle among the population of the Russian Federation</i>	0900	0,02
- <i>social assistance and social payments</i>	0900	4,17
- <i>other gratuitous and irrevocable transfers</i>	0900	3,35
- <i>co-financing Fund</i>	0900	1,87
- <i>medical care in day hospital of all types</i>	0900	0,28
- <i>emergency medical care</i>	0900	0,43

Indicator of budgetary classification	Section, subsection	Expenditures %
- <i>sanitary and health improving care</i>	0900	0,18
- <i>provision, processing, storage and security of blood and its components</i>	0900	1,58
- <i>other health related issues</i>	0900	1,31
Social policy	1000	41,65
Total expenses...		100

Source: compiled on the basis of the documentation related to the regional budget health expenditures and implementation of regional target health programs

The regional budget is characterized by a significant fraction of the cost differentiation, conducted through the regional target program in sections of the budget classification. The share of the regional target programs is slightly less than 8% of the total costs of the regional budget.

Expenditures which are characterized by the highest weight of program costs are: "Housing and utilities", "Physical culture and sport", "Culture and cinematography", "National economy" that constitute about 80% in total share of program costs in the regional budget. Five sections of expenditures do not have any program component. Such absence, regarding the section "National defense", is objectively related to the fact that under this section are only targeted subventions to local budgets for the implementation of measures on the primary military registration (i.e., to perform state functions). Section "Public debt service" objectively does not contain a program component, as it provides financing of payments on debt. Lack of program expenditures under the section "Mass media" can be considered as a drawback, since in this area to establish development targets would not have been a certain complexity in order to direct for their achievement budgetary funds under the program (as in the section "Health" or "Environmental Protection", for example).

The program costs on health in the total program expenditures of the regional budget made less than 4% (7th place in the structure of program costs). So, the expenditures of regional budget, related to health care, are included in the programs to a lesser extent, that is, the budget can be considered programmed with certain reservations. Therefore, at the present stage the region has more than significant opportunities for expansion of the implementation of the program principle into budgeting process. Nevertheless, it would be wrong to assume that all the costs of all sections should be presented in the form of programs. Program budgeting principles require the concentration of all costs within a certain budget major priority (programs), allowing different versions of their constituent elements. In addition to target programs, large (state) programs may include various forms of expenditure, common goals and objectives within the strategy of development of the state and territory. It is also necessary to note such feature of planning of program costs as the

distribution of activities (routines) and financing of a program in several sections of budget expenditures classification. Thus, each program can be a tool for the implementation of several functions (functional areas) of the authorities of a region, as well as the state authorities of the Russian Federation, and local self-government. Assessing the practice of budgeting from the position of the theoretical principles of the budgetary expenditure classification of the program budget, allow us to draw some plausible *conclusions*.

The *first* one is the absence of a clear classification of budget programs and methods of their formation. Definition of the nature, role and place of the long-term, departmental and interdepartmental programs targeted in the budget process, as well as the order of formation, implementation and evaluation of their effectiveness should be logically the responsibility of a relevant public legal authority.

In budgeting process of the exemplified region, departmental target program is a document which defines the objectives and tasks aimed at implementation of the state policy in the established areas and kinds of economic activities. The program contains a complex of measures to address the problems, indicating the necessary financial resources, expected results and the implementation schedule. Long-term program represents a set of implementation measures coordinated with tasks, resources, and time which allowed an effective solution of the most significant issues related to social, economic, environmental and cultural development of the region.

Thus, because of a lack of a clear definition of departmental and long-term program it is appeared to be difficult to identify their essential characteristics and distinguish from each other. In general, these definitions contain features characteristic of any programs: goals, objectives, activities, resources, results and deadlines. The budget expenditure classification by the Department of health and social development of the analyzed region contains no rows, reflecting the costs of departmental target programs.

The *second* conclusion, follows from the above, is a lack of compliance with the principle of autonomy as such, when the expenditure commitments of budget programs should not “interfere”. This situation arises from the gaps in the statutory secured clear classification, definitions and essential characteristics of the budget programs. Thus, in the decision of the Government of the analyzed region emphasizes that “departmental target program is implemented by one agency, is developed for a period not exceeding three years, is not subject to division by the subprograms and is implemented as part of governmental subprograms of Orel region”⁶. On the other hand, such interpretation of departmental target programs, suggesting their inclusion in other government programs, negatively affects the transparency of budget expenditure classification in general.

Based on the emphasized theoretical principles of the budgetary classification and grouping of target budget programs, we tried to present the program budget for the Department of health and social development of Orel region (Table 2).

⁶ Decision of the Government of Orel region from June 30, 2009 N76 “On the development, approval, implementation and monitoring of departmental target programs of Orel region”.

Table 2. Classification of expenditure of the program budget of the Department of Health and Social Development

Indicator of budgetary classification	Departmental code	Code of the target section	Expenditures, thous.
Departmental target programs including	010		0,02
Interdepartmental target programs including	010		0,18
Long-term regional target programs including	010		3,42
Non-program expenditure	010		96,37
Total...	010	-	100
Share of program expenditure in the total expenditure under section, %			3,6
Share of non-program expenditure in the total expenditure under section, %			96,4

Source: compiled on the basis of the documentation related to implementation of regional target health programs

Program budget, representing the amount of expenses of the chief administrator of the program budget, taking into account the characteristics of each classification program allows to build a system of goals, objectives and activities in order to achieve the strategic outcomes of socio-economic development of public institution. There should be distinguished departmental and interdepartmental, long-term target programs and non-program expenditures in order to allow the establishment of a public authority responsible for the implementation of programs, as well as execution of expenditure commitments which not included in the program part of the budget expenditure classification. Here are some of the proposed formation of the budget classification of the program budget for the Department of health and social development of Orel region.

First, a group of departmental target programs included two target programs: the program “Complex of measures to assist of those person who have served a sentence of imprisonment, and to facilitate their social rehabilitation in Orel region” and the regional program “Promotion of healthy lifestyle among the population of Orel region”. The basis of this criterion was taken the exclusiveness of administrator of budgetary allocations (i.e., of the Department of health and social development), and, consequently, the individual nature of responsibility. In contrast to the collective nature (as it can be observed in the case of long-term programs) it allows us to estimate the contribution of individual units of the administration in achieving the set of goals and objectives of the municipal entity as a whole. In addition, activities of these target programs do not coincide with the activities of long-term programs, and are short-term, that also distinguishes departmental target programs.

Secondly, four long-term target programs funded by the Department of health and social development in collaboration with other agencies that cannot be attributed to departmental target programs, were included in the interdepartmental target programs. The remaining three regional target programs were included in the group of long-term regional target programs. Period of their implementation suggests that the problems posed by these programs cannot be resolved in the normal course of current activities and are aimed at achieving the strategic targets on the territory.

Third, non-program expenditures of the Department of health and social development were allocated in a separate group, which allows to determine the medium-term relations proportion of program and non-program expenditures.

Finally, the adaptation of the hypothesized below budget classification on practice supposed to take into consideration needs of a single budget system, which differs in the degree of detail and organizational orientation. Thereby, the important issue becomes a connection of budget classification with the organizational structure and functions of the principal administrators of budgetary funds. On the part of the public finance system, it is assumed that it would ensure the integration and systematization of information on the state of budget target programs.

Conclusion

A comprehensive assessment of health care budget allocation within its modernization context, appears to be difficult since most of the transformation is carried out in a relatively recent period of time, and is associated with a need to bring the practice of budgeting in accordance with the requirements of Budget Code of the Russian Federation.

To an undoubtedly positive result can be attributed the ordering of practices in the compilation of the regional budget. At the same time, on the level of regions budget process, complication of organizational planning procedures and associated workflow is a negative aspect, characterized primarily by the problem of low level of coordination between the participants.

Analysis of regulatory data base suggests that examined region can be attributed with greater certitude to those regions of the Russian Federation, the budgeting process of which is still developing, dominated by a conservative component. Even though the procedure of development and implementation of departmental target health budget programs was approved at the legislative level, their introduction into the budget process is not yet evident. In this case, specification of the features of the target programs would be useful to prevent further errors in the methods of their formation at the regional and municipal levels. It also would help to create a more transparent and open mechanism for accounting elements of the programming of budget allocation, establishing the level of accountability for results of socio-economic development of the territory.

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The Role of Good Governance in Economic Development: Evidence from Eastern European Transition Countries

Jonida Avdulaj* • Flora Merko** • Klodian Muço***

Abstract The paper aims to evaluate the impact of main good governance indicators on GDP per capita and FDI in Eastern European Transition Countries. Empirical results confirm that Government Efficiency and Rule of Law have a positive impact on GDP per capita growth while Control of Corruption harms GDP per capita growth, so a reduction in corruption generates GDP per capita growth. The results also show that government efficiency has a positive impact on increasing the flow of foreign investment and that an increase in corruption somewhat reduces FDI flow.

Keywords: Good governance, Economic growth, Foreign investment, Eastern European Transition countries.

JEL Classification: O11, P48, P52.

Introduction

After the fall of the Berlin Wall, the “two worlds” and “two economic systems” arrived to an end. This event marked the beginning of the long and difficult path of the Eastern European countries’ integration into the global economy. This ongoing transition is a unique event in history because it is a multidimensional process and it brings about radical changes such as removing any ideological and political barriers between the east and west and fundamentally changing their economic system from a centrally planned economy to an economy based on private property.

The majority of Eastern European countries in the first stages of the transition experienced rapid growth of macroeconomic indicators, but this growth often did not translate into development and did not result in a reduction in inequality (Muço and Balliu, 2018). The natural resources or any strategic state-run enterprises these

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countries had turned out to be a curse for their economic development. This is because economic growth during the transition was associated with a significant lack of good governance (Pere, 2015), which, according to Keefer (2009), means the provision of a public service which positively influences economic growth and development (Kaufman and Kraay, 2007). Good governance is a wide concept that encompasses several components such as corruption, political stability, rule of law, efficient management of public finances, etc. (Kaufman et al., 2005). Based on these facts, in this paper we analyze the impact that some of the indicators of good governance have on the economic growth of Eastern European Transition Countries. This means identifying the causes of success or failure of economic development in Eastern European transition countries as well as the weight that some of the indicators of good governance estimated by the World Bank have in the economic growth of the countries in question. This would have a positive impact on future policy orientation and would have a positive impact on the economic growth and well-being of these countries.

To achieve this objective, in this paper we have selected a data panel from 22 different countries with data ranging from 1996-2018, and as an empirical model, we have presented a panel with fixed and random effects where GDP per capita and FDI net inflow as a percentage of GDP serve as dependent variables whereas Political Stability, Lack of Violence, Government Efficiency, Rule of Law, and Control of Corruption will serve as independent variables.

The results suggest that for Eastern European Transition Countries, a reduction in the control of corruption index coupled with an improvement in the government efficiency index as well as the rule of law positively influences GDP per capita growth and FDI.

This paper is organized as follows: first, there is a brief introduction, then we offer an overview of Eastern European transition countries and literature review, after that, we present data, methodology, and empirical analysis, and last we arrive at some conclusions.

2. Overview of Eastern European Transition Countries and literature review

The year 1989 marked the beginning of a great process of transformation of the countries of Central and Eastern Europe, aimed to pass from a planned to a market economy based on private property.

The challenges that these countries faced were numerous such as the process of macroeconomic stabilization, economic restructuring and adjustment of productive capacity, de-monopolization of the economy, and increasing market competitiveness, but above all, they had to guarantee economic development and welfare for citizens. In general, the economic development of these countries (Eastern European transition countries) over the years was characterized by high economic growth but this growth in the vast majority of these countries was not accompanied by increased welfare and equality. On the contrary, in most of these countries, this period was associated with a high level of corruption and a low level of good governance (Muço and Balliu, 2018; Pere, 2015). This suggests that corruption and misgovernance in these countries have become a “culture” and it is difficult to prevent and combat them. Other researchers in their studies considered good governance as a multidimensional process that involved

policy, system, and behavior (Liu et al., 2018; Tang et al., 2018; Jiang et al., 2017; Shi and Fang, 2010). Whereas the World Bank evaluates good governance through the Worldwide Governance Indicators using six key dimensions of governance (Voice & Accountability, Political Stability, Lack of Violence, Government Efficiency, Regulatory Quality, Rule of Law, and Control of Corruption).

Various economists argue that good governance is one of the main factors that stimulate not only the strengthening of democracy in a country but also its economic development (Kaufmann et al., 2010; Dixit, 2009; Kaufmann et al., 2005; Olson et al. al., 2000; Herbst, 2000; Collier, 1999). Besides, it positively stimulates human development in overall (Davis, 2017); it has a positive impact on a country's economic growth and on reducing multidimensional poverty (Jidra and Vaz, 2019; Chong and Calderón, 2000; Levine, 1997); it reduces bureaucracy which stimulates economic growth (Rauch and Evans, 2000), as well as it improves fiscal revenues and ensures a better redistribution of them for the welfare of the whole community (Pribesh et al., 2011).

Good governance also serves to attract foreign tourists and to develop tourism in overall (Detotto et al., 2017), as well as to improve the business climate as it is related to the rule of law and government efficiency (Ishiyama, 2019). Good Governance is closely linked to institutions and improving their quality stimulates an increase in domestic and foreign private investments (Brunetti et al., 1997; Knack and Keefer, 1995) and the latter, according to Barro (1991), are stimulated by political stability as well.

Good governance is also positively associated with low levels of corruption which, according to (Dreher and Schneider, 2010; Kaufmann, 2010; Del Monte and Pagani, 2008; Abed and Davoodi, 2002; Tanzi and Davoodi, 2002; Friedman et al., 2000; Mauro, 1995), stimulates economic growth. Other studies view corruption as a stimulus to the economy as it fights bureaucracy and helps entrepreneurs to bypass the inefficient regulations (Leff, 1964; Acemoglu and Verdier, 2000; Huntington, 2002; Rock and Bonnett, 2004).

Wilson (2016) in his study on China, believes that the quality of governance promoted the transformation of the industrial structure by hindering the primary industry and encouraging the tertiary industry but beyond that, it doesn't have a positive effect on GDP growth. Chang (2003) argues that the economic development of a country should not be measured only by good governance, but there are a series of other factors because economic development, according to him, is the result of a combination of other factors.

Regarding developing countries, various studies of neo-institutionalist economists on the linkage between good governance and economic growth came up with two different theories regarding the role of good governance in economic growth (Kauffman, 2005; Knack and Keefer, 1995; Rodrick, 1995).

The first connects the economic development of a country with the proper functioning of institutions. According to them, the lack of economic development is related to the lack of good governance or the failure of a state in the fight against corruption, non-guarantee of property rights, market distortion, or lack of democracy. The second theory developed by Rodrik (1995) concerns the ability of the state to

implement social change and pursue a voluntary policy of economic development. The transition of developing countries towards a capitalist system comparable to that of developed countries cannot operate without the establishment of efficient institutions concerning the distribution of political power in such countries. Conversely, those countries would face state failure as a result of a mismatch between institutions and economic policy of development (Mira and Hammadache, 2017).

3. Data, methodology and empirical analysis

The data used in this study allow us to calculate the impact of good governance indicators on economic growth in Eastern European transition countries so that we can assess whether there are changes in the impact of countries with different stages and economic growth, as well as the impact of these indicators on foreign direct investment.

To conduct this study we have created a data panel with 22 countries that are considered Eastern European Transition economies, including here those countries that are already part of the European Union, respectively: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia, as well as those outside the EU and aspiring to join in the future such as Albania, Armenia, Belarus, Bosnia and Herzegovina, Georgia, Kosovo, North Macedonia, Moldova, Montenegro, Serbia, and Ukraine. Historical data for these countries range from 1996 to 2018. The number of observations in the panel goes from 469 to 493. We didn't include earlier data concerning some of the countries in this study because such data is not available. So we preferred to have a balanced data panel.

The data considered are macro variables and all have been taken from the World Bank. This choice was made to have homogenized data.

Based on the studies of Shao (2016) and Fayissa and Nsiah (2013), GDP per capita constant price is used as a variable of economic growth, which will be the first dependent variable, whereas FDI to GDP, i.e. Foreign Investments as a percentage of GDP will be the second dependent variable.

The Worldwide Governance Indicators stimulated (evaluated or calculated) and published by the World Bank as Political Stability¹, Government Efficiency², Rule of Law³, and Control of Corruption⁴ have been used as independent variables. All the

¹ Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism. The estimate gives the country's score on the aggregate indicator, in units of standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

² Government Efficiency deals with perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies. The estimate gives the country's score on the aggregate indicator, in units of standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

³ Rule of Law deals with perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. The estimate gives the country's score on the aggregate indicator, in units of standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

⁴ Control of Corruption deals with perceptions of the extent to which public power is exercised for private

above variables were taken into account in the study of Kurtz and Schrank (2007) or that of Setayesh and Daryaei (2017).

This study does not include two Worldwide Governance indicators, such is Voice & Accountability⁵ and Regulatory Quality⁶, as the focus of this study is economic growth and not welfare in overall. Similar models may have problems with heterogeneity, but given the fact that our study is with panel data, it is enough to include “fixed effects” to solve the above problem.

In the following, we will look at the empirical results of the impact that the various good governance indicators have on economic growth and on the private and foreign investment.

Table 1 Impact of good governance indicators on GDP per capita

Dep. Var: 1 GDP per capita constant 2010	Fixed Effects				Random Effects (GLS)			
	Coef.	Stan. Errors	t - ratio	P-value	Coef.	Stan. Errors	t - ratio	P-value
Const	8,77052	0,0158705	552,6	<0,0001***	8,76526	0,0868082	101,0	<0,0001***
Govern Efficiency	0,738268	0,0635969	11,61	<0,0001***	0,747854	0,0630442	11,861	<0,0001***
Rule of Law	0,0371572	0,0394632	10,41	<0,0001***	0,0470865	0,0394614	6,786	<0,0001***
Control of Corruption	-0,0254225	0,0597092	-7,42	0,0029***	-0,0121419	0,0595170	-2,204	0,0083***
Political Stability	0,0330971	0,0344826	0,9598	0,3376	0,0253106	0,0342275	0,7395	0,4596
Observation (groups)	493 (22)				493 (22)			
R-square LSDV	0,931009	R-Square cor.		0,390053	Sum Sq. Res.	0,803068	St. err. Reg.	0,485780
F - Stat (25, 467)	252,0781	P-Crit. (F)		5,4e-253	Hannan-Quin	701,4112	P.Crit	1,07471e-073
Stat. Durbin -Watson	0,185307				0,185307			

*: 10%, **: 5%, ***: 1%

Stat F(4, 467) = 74,66, p-critic = P(F(4, 467) > 74,66) = 6,7596e-049, Stat test F(21, 467) = 69,1624, p-critic= P(F(21, 467) > 69,1624) = 1,14041e-128

Chi-square(4) = 346,353, Breusch-Pagan -H₀ Var.grad. ind.= 0, Stat test. Hi_{sq} Chi-square (1) = 2513,88, p-critic = 0, Hausman Test - H₀ Val. GLS is conv. Stat test. Chi- square (4) = 9,92605, p.crit = 0,0416919

gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. Estimate gives the country’s score on the aggregate indicator, in units of standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

⁵ Voice and Accountability deal with perceptions of the extent to which a country’s citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. The estimate gives the country’s score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

⁶ Regulatory Quality deals with perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. The estimate gives the country’s score on the aggregate indicator, in units of standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

From the first table, we notice that the Government Efficiency and Rule of Law indicator has a positive impact on GDP per capita growth of the countries under consideration, while Control of Corruption harms GDP per capita growth. The results are robust even though we use different estimates (GLS and *Fixed effect*).

The results are coherent with the economic literature that good governance, increase of government efficiency and rule of law, as well as a reduction in corruption, lead to the economic growth of countries (Kaufmann et al., 2010; Dixit, 2009; Olson et al., 2000; Herbst, 2000).

As for the model in overall, we can say that it is robust, F stat is significant, and $R^2=0.39$. And the Hausman Test confirms that GLS estimator is consistent.

Table 2 Impact of good governance indicators on FDI

Dep. Var: FDI net inflow in % of GDP	Fixed Effects				Random Effects (GLS)			
	Coef.	Stan. Errors	t - ratio	P-value	Coef.	Stan. Errors	t - ratio	P-value
Const	0,0548457	0,0036527	15,01	<0,0001***	0,0529891	0,00601787	8,805	<0,0001***
Government Efficiency	0,0337846	0,0142762	2,367	0,0184**	0,0256229	0,0119335	2,147	0,0318**
Control of Corruption	-0,0469315	0,0138443	-3,390	0,0008***	-0,0351881	0,0123772	2,843	0,0045***
Political Stability	0,00104897	0,00801615	0,1309	0,8959	0,000613127	0,00692040	0,08860	0,9294
Observation (groups)	469 (22)				469 (22)			
R-square LSDV	0,215223	R-Square cor.		0,27348	Sum Sq. Res.	0,216508	St. err. Reg.	0,053548
F – Stat F(24, 444)	5,07358	P-Crit. (F)		5,19e-13	Hannan-Quin	701,4112	P.Crit	0,0294441
Stat. Durbin – Watson	1,522578				1,522578			

*: 10%, **: 5%, ***: 1%

Stat F(3, 444) = 4,16127, p-critic = $P(F(3, 444) > 4,16127) = 0,00634787$, Stat test F(21, 444) = 5,6558, p-critic = $P(F(21, 444) > 5,6558) = 1,35751e-013$

Chi-square(3) = 8,9885, Breusch-Pagan $-H_0$ Var.grad. ind.= 0, Stat test. Chi-square (3) = 3,84078 con p-critic = 3,44892e-028, Hausman Test - H_0 Val. GLS is conv. Stat test. Chi- square (3) = 3,84078, p.crit = 0,279178

In the second model, Foreign Direct Investment, net inflows (% of GDP) is used as the dependent variable whereas Government Efficiency, Control of Corruption, and Political Stability are used as explanatory variables to verify whether foreign investments are influenced by government efficiency, corruption, and political stability, or rather whether foreign companies choose to invest or not in countries with good governance. In this model, all the explanatory variables are used with a lag value of 1(one) as foreign investors assess a foreign country carefully before investing in it.

From model number 2, we see that Government Efficiency has a positive sign and is significant, that is to say, good governance efficiency has a positive impact on the increase in foreign investment flows. Whereas the Control of Corruption variable has a negative sign and is significant, which shows that the increase in corruption somewhat reduces the FDI flows.

The variable Political Stability is not significant, so it does not influence FDI and the coefficient before the explanatory variable in question is very low, almost negligible. This is probably because foreign companies generally move production to one of the Eastern European transition countries. After all, they stand to benefit from labor costs, the fiscal system, transport costs and time, or population size. A foreign company is not interested in the political structure of a country, the only thing they are interested in is high government efficiency and low corruption.

If we will see the importance of this model in overall even in this case we can say that it is robust, F stat is significant whereas R^2 is very low. The Hausman Test confirms that the GLS estimator is consistent.

Conclusion

The results achieved in this paper suggest that a country's different policies should continuously aim to improve governance efficiency, to control and reduce corruption, and to improve the rule of law as these would have a positive impact on sustainable economic development in Eastern European transition countries.

The empirical analysis of panel models featuring fixed and random effects revealed that corruption, which in the vast majority of Eastern European Transition Countries has been present at a relatively high level, has a negative effect on both in GDP per capita growth and curbs foreign investment. The empirical analysis also confirmed that Government Efficiency and Rule of Law have a positive impact on GDP per capita growth.

Government Efficiency, in addition to its positive role in GDP per capita growth, plays an important role in increasing foreign investment. Another interesting result of this paper is the fact that even though there is a positive correlation between political stability and GDP per capita growth, this indicator is not significant. So, good governance efficiency and a reduction in corruption, influence the economic development of a country, which in a way leads to the political stability of that country. The political implication of this study is the fact that good governance plays an important role in the economic growth of transition countries, be it those which are considered to have completed the transition Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia, as well as those countries that are still considered to be transition countries such as Albania, Armenia, Belarus, Bosnia and Herzegovina, Georgia, Kosovo, North Macedonia, Moldova, Montenegro, Serbia, Russia, and Ukraine.

In conclusion, the fight against corruption and the improvement of the rule of law index are considered priority to GDP growth and also increase of foreign investment for Eastern European Transition Countries.

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Microbrewery in Greece: Reasons for its Development

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Abstract The paper looks into the reasons for the impressive development of microbrewery in Greece the decade of 2010's. It was constructed through using a questionnaire to microbreweries in Greece based on six hypotheses related to the existing literature on microbreweries and to the particularities of Greece. A distinction between microbreweries on the Greek islands and continental Greece was maintained in order to obtain more precise results. In the first set of hypotheses our findings are quite close to that found in the literature. This set is comprised of three main hypotheses, which are: firstly, that social media and the internet have an important role; secondly, that microbrewers adopt an argument different to the big brewery industry; thirdly, that localism has an important place in the policy. The second set of hypotheses has not been discussed in the previous literature; these hypotheses examine the role of the unemployment and the public financial help on the creation of this craft industry and the tourism effect on the development of microbreweries. Contrary to what was expected, unemployment and the search for work were not reasons to create microbreweries; microbreweries received financial help but it was not the main reason to invest; tourism had a crucial role in the development of microbreweries, particularly in those on the islands and on continental Greece near to the coast.

Keywords: Microbrewery, economic crisis, entrepreneurs, small business, tourism, Greece.

JEL classification: L22, L26, R11, Q13, Z32.

1. Introduction

In the 2010s, Greece experienced one of the biggest economic crises in its post-war history. This crisis was due to the austerity policies imposed in 2010 as a result of the agreement on international financial assistance to the country by International Monetary Fund (IMF) and European Union (EU). The main goal of this agreement was the reduction of fiscal deficits and, in the long run, of public borrowing. The country's economic downturn has caused, among other things, rising unemployment, declining production and the bankruptcy of many companies, due to a rise in the number of non-performing loans. Similar phenomena have occurred in other countries

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that have received financial assistance from the IMF and the EU, such as: Cyprus, Ireland and Portugal.

In the same decade, however, an exceptional event occurred, which is a large increase in the number of microbreweries both in Greece and in other countries, especially in Portugal and Ireland (Karafolas et al. 2020). The number of new microbreweries created in the 2010s is many times higher than the number of microbreweries that existed until 2009. New microbreweries were created throughout Greece, both in the islands and on continental Greece.

The purpose of this paper is to examine the reasons why microbrewery in Greece developed so strongly during this period. The study is twofold. It is interested in seeing if a number of reasons that characterized the development of microbrewery in other countries apply to Greece as well. The use of social media, the attitude of microbreweries towards large companies and localism are parameters examined by international literature and are considered in this research.

However, Greece presents peculiarities that concern its unique geography, its accepting a large tourist population, as well as the particular period of its economic crisis. Three parameters can be mentioned: the search for work, financing and tourism. The unemployment was very intense in this decade and forced many Greeks to even emigrate. Thus, is the search for work a key reason for someone or a team to start running a microbrewery? Another parameter is related to funding. Since the 1990s, Greece has been receiving funding through European programs and Greek companies have received significant grants for investments. A typical program is the LEADER initiative that helps agro-food and agro-tourism businesses, especially in the countryside. To what extent was the decision to make the investment based on such financial assistance? The third parameter is related to tourism as Greece is the recipient of more than 30 million arrivals per year on average this decade. These parameters have not been discussed in the previous literature; they characterize Greece but can be supported in other studies of countries with similar characteristics not only for microbreweries but for other small enterprises. After the introduction the paper discusses previous results in section 2; the growth of microbrewery through the number of industries and their geographic extent is presented in section 3; the reasons of this development is discussed in section 4, referring to the hypotheses adopted, the methodology followed and the results. Conclusions are offered in section 5.

2. Previous results

Brewery and craft microbrewery have been examined through several aspects such as business strategy, diversity of production, localization strategy, rural tourism, consumers' attitude, work environment, the role of the internet and the effect of the economic crisis. On business strategy a main conclusion is the role of diversity on the product and quality. Danson et al. (2015) argue that the growth of microbreweries in UK is based on the diversity and quality of their product and not on a competitive price which is the preferable competitive area of the big breweries. Cabras and Bamforth (2016) based on a case study of microbreweries in USA and UK, found that aggressive marketing

strategy and innovation permitted them to grow up into well established companies. Kleban and Nickerson (2012) found that the main strategy of craft breweries in USA is the diversity of their product based on quality, stability and taste. Yongmei Zhang et al. (2015) also mentioned the strategy of diversity of the product. The role of marketing as a strategic parameter was examined in a comparative study between Canada and USA by Heroux and Clark (2017); the authors accepted its role and highlighted the specific role of social media and the internet. Social media and internet impact was examined as a hypothesis by Blanchette (2016), Pogrebnyakov (2013), and Foster et al. (2017). On the localization strategy, several studies have shown microbreweries' strategy on marketing and branding called neolocalism. This strategy is based on the local names emphasizing their connection to their location and community engagement. Schnell and Reese (2003) found that microbreweries used neolocalism as a tool of local identity. Holtkamp et al. (2016) showed the neolocalism of microbrewing in the case of three states in the USA: Colorado, Oregon and Texas; Myles and Brune (2017) did it through three case studies in West Sacramento, CA, Lexington, KY and Manchester, UK; Derrek (2014) and Blancette (2016) did it in the Canadian case.

Blanchette (2016) referred to the positive role of the internet and social media on the information acquired from microbrewers, in the case of Quebec, at least at the beginning of their activities.

Rural tourism has been related to craft breweries. Murray and Kline (2015) examined the relation between craft beer and rural tourism in the case of North Carolina, USA. Positive effects on rural tourism are related to three main factors: the connection with the community, the desire for unique consumer products and satisfaction. Beer tourism is considered as a niche market in tourism by Francioni and Byrd (2016) while Dunn and Wickham (2016) mentioned some advantages of this market such as: the encouragement of consumers to visit the brewery, the contribution to overcome barriers to distribution, the creation of clusters between craft breweries and the development of "beer culture".

The consumers' attitude has been the object of other studies. Rivaroli et al. (2019) focused on the attitudes and motivations toward craft beer consumption using two samples, in Italy and Germany; they concluded on the major role of the consumer's attitude and the desire for unique consumer products. Donadini and Porretta (2017) were interested in consumers' behaviour in the beer market and importance they give to several factors as price, type of brewer, location of the brewery, brewing technology.

The working environment has been the subject of the study by Thurnell-Read (2014); the author was interested in the results of working in a microbrewery. He concluded that work in a microbrewery may offer an antidote to the labour alienation of modern capitalism by being part of the whole production process.

A comparative analysis of the growth of the brewery industry during a period of economic crisis was examined by Karafolas et al. (2020) using the case of four countries that received international financial help: Cyprus, Greece, Ireland and Portugal. The paper concluded that despite the negative effects of the economic crisis, microbrewery played an important role mainly by the creation of new microbreweries, especially in Portugal and Greece.

3. The development of microbrewery in Greece

3.1 A recent development during economic crisis

The creation of microbreweries in Greece is very recent; out of 51 microbreweries functioning in 2019, 33 were created since 2015 while 44 were created during the economic crisis of 2009-2019, table 1. An analogous movement is observed in the case of Portugal because all 115 microbreweries registered in 2017 were created since 2011, and in the Irish case since 95 of 105 microbreweries were created the time period 2008-2017 (see Karafolas et al. 2020). The period of economic crisis seems to be a period of investment initiatives for new sectors of production. In the Greek case these initiatives are concentrated during a period of transition from political, economic and social uncertainty, (especially on 2015 when the Greek government decided the capital control), to political and economic stability in the years that followed.

Table 1. Creation of microbreweries in Greece

Creation year	Number
1996	1
1998	1
1999	1
2004	1
2006	2
2007	1
2009	2
2010	1
2011	2
2012	2
2013	1
2014	3
2015	7
2016	12
2017	6
2018	7
2019	1
Total	51

Source: Author's investigation through microbreweries sites and **Greek microbrewery (2019)**

3.2. Dispersion to all Greek regions and the role of tourism

Microbreweries were created in all 13 Greek regions, table 2; Greece is divided administratively into 13 regions. Four of them are island regions; the other nine are in

continental Greece, nevertheless, having important sea shores and even islands. In total, out of 51 microbreweries registered in our investigation, 22 are established in islands.

Table 2. Dispersion of microbreweries to Greek regions

Region in Greece	Number
Attica	4
South Aegean (*)	8
North Aegean (*)	3
Crete (*)	5
Ionian Islands (*)	3
Peloponnese	7
Central Macedonia	6
Eastern Macedonia and Thrace	5
Western Macedonia	1
Thessaly	6
Central Greece	1
Epirus	1
Western Greece	1
Total	51

Source: As table 1.

(*) Island region

Five of them are in Crete: in particular, three in Heraklion and two in Chania. In the South Aegean region two microbreweries are registered in Santorin and one each in Rhodes, Mykonos, Paros, Naxos, Tinos and Folegandros. In the North Aegean region microbreweries are located in Chios, Lesvos and Ikaria. In the Ionian Islands there are microbreweries in Corfu, Kefallinia, and Zakynthos. Three other microbreweries were created in islands that belong to the continental regions: in Alonisos and Scopelos in the region of Thessaly and in Samothraki in the region of Eastern Macedonia and Thrace.

The number of microbreweries in the Greek islands and these near to sea shores makes the tourism an important parameter for the development of microbreweries because it can have a crucial effect on beer's consumption especially during tourism period, even if the tourist population is occurs mainly during the summer period. Table 3 shows the evolution of total arrivals and overnight stays in Greece, including foreign and domestic ones, for the time period 2010-2018. The number of arrivals increased from 29.6 million in 2010 to 38.4 million in 2018. This increase occurred during the crisis period, table 3.

Table 3. Arrival and overnight stays in Greece, (in million)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Arrivals	29.6	30.2	26.7	29.1	32.4	33.8	34.2	37.6	38.4
Total Overnight stays	63.4	65.64	58.4	63.8	68.4	71.5	73.3	80.7	82.2

Source: Institute of the Association of Greek Tourism Enterprises (INSETE) Intelligence, 2019, Regional Statistics, (authors calculations), <http://www.insete.gr/en-gb/INSETE-Intelligence/Statistics/Statistical-Bulletins>

Note: Data comes from part of the total beds available; results are not estimated and displayed in 100% of reporting units due to lack of information on the months of operation of each accommodation within the year.

4. Causes of this development

4.1 Hypotheses

A number of hypotheses were admitted to investigate the reasons for the creation and growth of this small industry that took place especially during the period of economic crisis in Greece, in the 2010s. Hypotheses had to explain the creation of microbreweries and their development. Previous research is expected to be useful to explain the phenomenon; however the particularities of the country had to be considered. Thus six hypotheses were considered: three of them are related to aspects examined by the literature and three of them are related much more to Greece, namely, the economic crisis, public funding and the tourism effect.

Hypothesis 1: Microbreweries make active use of the internet and social networks as part of their brewing activities. The application of the internet and social media should be used by Greek microbreweries, as in the case of other countries such as Canada, Blanchette (2016). On this hypothesis two questions have been asked: a/ Does the microbrewer use the internet as a source of information and learning in the field of brewery? b/ Does he use it to expand the network of contacts?

Hypothesis 2: Participation in the community of small brewers is subject to specific attitude. Four questions were asked of microbreweries: a/ Must the beers be considered quality beers? b/ Does the microbrewer adopt an attitude opposed to that of the large industrial breweries? c/ Does the microbrewer express a kind of creativity through this activity? d/ Do microbreweries cooperate with each other and share privileged information with one another?

Hypothesis 3: It is based on the neolocalism to which several studies relate. The microbrewery seeks to establish contact with its immediate environment. Four questions were asked: a/ Dose the microbrewery look for direct contact with the environment and the consumer? b/ Does the microbrewery make use of local raw materials? c/ Dose the microbrewery make use of names with a local accent? d/ Does the microbrewery participate in the local community?

Hypothesis 4: Microbreweries developed as a result of unemployment and a lack of business opportunities. Greece faced a serious economic depression as result of the economic crisis and the economic and financial conditions applied by the austerity

plan that followed the international financial help to the Greek governments (Karafolas 2018). Unemployment has been one of the main results of the economic depression: it increased from 9.6% in 2008 to 23.5% in 2016 (Karafolas 2018). Unemployment should be a reason for the creation of microbreweries. Three questions were asked: a/ Was the microbrewer unemployed before he took up microbrewery? b/ Does the microbrewer find it easier to work in the region rather than the main urban areas of Athens and Thessaloniki that have almost half of the Greek population? c/ Is microbrewery closer to the subject of his studies?

Hypothesis 5: Investments in microbrewery are financed partly by public funded help. Productive investments have the possibility of public financial help through programs funded by the European Union and the Greek state. This parameter is added to other financial resources such as self-financing and bank lending. Four questions were asked: a/ Did the microbrewer self-finance his company? b/ Did the microbrewer get a bank loan? c/ Did the microbrewer receive a grant from a European or national financial program? d/ Had the microbrewer mixed funding based on the previous cases?

Hypothesis 6: Microbrewery is based on tourism and the local market contrary to the big breweries which have a big part of the national market. The hypothesis is based on the implantation of microbreweries that show a preference for the Greek islands and to areas near the Greek coast; it is also influenced by the neolocalism idea and the small size of these companies. Four questions were asked: a/ Are sales based mainly on tourism? b/ Does the microbrewery sell mainly to the local market? c/ Does the microbrewery export a limited part of production? d/ Does the microbrewery have any important expansion on the national market? Additionally, it was asked to island microbreweries to indicate which part of sales has any one of the above markets.

4.2 Methodology and data

The research was conducted in several steps. In a first step the sorting of microbreweries was necessary. On the basis of this sorting the questionnaire was sent to 49 of microbreweries; in addition, some microbreweries received a personal visit. The time period between sending out the questionnaires and receiving the answers was from winter 2019 to April 2020, at the beginning of lockdown due to covid-19. Answers from 34 microbreweries were received covering all Greek regions, table 4. The sample may be considered as sufficient. From this sample 14 answers were provided from microbreweries functioning in islands, (including three islands from the continental regions of Eastern Macedonia and Thessaly) and 20 from continental Greece. The microbreweries that answered the questionnaire were created mainly during the Greek economic crisis. 29 of them were created after 2009 and 18 during the period 2016-2019. The recent creation influences the stage of growth: thus for most of microbreweries, that is three quarters of them, sales are less than half of million, and mainly they are between 100,000 and half of million; on annual average they have 4 permanent and 5 seasonal employees.

Table 4. Microbreweries that answered the questionnaire, by Region in Greece

Region	Number of microbreweries
Attica	1
South Aegean	3
North Aegean	3
Crete	4
Ionian Islands	2
Peloponnese	2
Central Macedonia	7
Eastern Macedonia and Thrace	4
Western Macedonia	1
Thessaly	4
Central Greece	1
Epirus	1
Western Greece	1
Total	34

Source: Author's investigation

4.3 Findings

The sample was divided into two categories of microbreweries: those based on the islands and those based on continental Greece. This distinction could offer more precise results on the needs of microbreweries based on their geographic location. This distinction was considered more appropriate and it could be useful for other countries having the same particularities.

On the role of the internet and social networking, that is the first hypothesis, two interesting findings appear. Microbreweries in Greece make an active use of the internet in order to acquire any useful information and knowledge on the brewery industry. This is the case in almost all continental microbreweries (90% gave a positive answer) and 79% for those in islands. The use of internet did not have the same importance on the growth of sales: it has a positive impact on sales for 60% of microbreweries in continental Greece and for only 43% of microbreweries in the case of the islands. The Greek case approaches the conclusions of Blanchette (2016) in the Quebec case. The internet and social networking has a role at least at the beginning but it does not make the microbrewery community a virtual community. This case of sales differentiates the Greek case from the conclusions of the strengthening of the digital relationship between artisan industries and their consumers supported by Foster et al. (2017).

On the second hypothesis, regarding the attitude of microbrewer, the first important finding is that all microbreweries agree that a microbrewer adopts an argument and attitude different from the big industrial breweries. We find this in the argument of

Thurnell-Read (2014) on the differentiation of the microbrewer to the labour alienation of modern capitalism. A second finding is that almost all agree on cooperating with each other and sharing useful information. Regarding the proof of creativity by the microbrewer and the proof of quality beer, the answers do not prove the necessity of these parameters since only about half of total answers agreed.

On the third hypothesis the localism seems obvious in the Greek case, both on island and continental Greece. All microbreweries seek to establish contact with the immediate environment and the consumer; all of them seek to be involved in the local community; almost all make use of names of local characters and the big majority use local raw materials (64% in islands and 85% in continental Greece). Localism seems being quite strong in the Greek case as in other cases in USA, Holtkamp et al. (2016), United Kingdom and USA, Myles and Brune (2017) and Canada, Derrek (2014).

The fourth hypothesis relating to employment and job orientation was based on three main ideas. The huge unemployment (see Karafolas 2018) that Greece faced during the crisis period would incite people to create their own activities and this would be the case with microbreweries in Greece. All microbrewers on islands and almost all on continental Greece (90%) did not consider unemployment the reason to create the microbrewery. The second idea is the wish to leave the urban centres and go to the province where it is easier to find or create a job or activity. For the big majority of microbrewers on the continental Greece this was not the reason to go there (80%); in the case of island microbrewers, for more than half of them (57%) it would be an incentive to create the microbrewery in this locality. The third idea was that the microbrewer should create such an activity because it is closer to his studies: this was the case for a little more than the half of island microbrewers and it was true only for a minority, (about one third), in the case of the microbreweries on the continental Greece. Therefore it is clear that the creation of microbreweries was not the result of difficulty in joining the labour market.

The fifth hypothesis was based on the financing of microbrewery. The Greek economy received important financial help from the European Union in order to finance productive activities, in particular investments in the private and public sector. This is related also to specific financial help offered by programs focusing on such activities in non-urban areas: as in the case of the LEADER initiative, see for example Karafolas (2013). The idea was to investigate if microbreweries were financed with public financial help, banking credit or by self-financing. Mixed financing was the case for all microbreweries but in different ways. In the case of continental microbreweries almost all (90%) received public financial support; this was the case only for half of the island microbreweries who based their investment to self-financing much more than the other microbrewers. Therefore public financial help had a role on the decision to invest but it was not the principal reason for the investment decision of microbrewers, especially for microbreweries in islands.

The sixth hypothesis was interested on the sales markets of microbreweries. Four sales markets were examined: this related to tourism, the local market, the national and exports. In the case of island microbreweries for the big majority sales are related to tourism, followed by sales to the local market and the national market. Sales to tourism

have about 70% of total sales. In the case of microbreweries on continental Greece, sales are mainly to national and local market followed by tourism. Exports have a very small part of sales. Sales to tourism and local market have the role expected in the case of islands but also in microbreweries based on the coast of continental Greece with significant tourist traffic. Table 5 on arrivals in places with one or more microbreweries in existence is quite characteristic. In three cases arrivals are higher than one million, even 1.5 million in the case of Rhodes and Heraklion in Crete, table 5. In 20 cases arrivals are higher than 100,000. Thus tourism becomes a main source for the demand and consumption of beer, especially with tourists asking for local products such as beer produced by local microbreweries as concluded by the study of Rivaroli et al. (2019). The tourism effect in the Greek case surpasses the simple relation of local tourism to microbrewery as concluded by Murray and Kline (2015), Francioni and Byrd (2016), Dunn and Wickham (2016).

Table 5. Annual arrivals in selected islands and coast areas in Greece having at least one microbrewery, average of period 2010-2018 ⁽¹⁾

Area	Arrivals	Area	Arrivals
Rhodes	1,604,461	Santorin	155,687
Heraklion	1,456,972	Kavala**	127,164
Salonika	1,107,602	Kefallinia	126,020
Chania	807,446	Thasos	121,054
Corfu	726,177	Samos	118,584
Chalkidiki	724,604	Lesvos	109,990
Kos	724,183	Paros-Antiparos	76,128
Lasithi	530,396	Lefkada	67,051
Rethimno	504,938	Chios	54,695
Zakinthos	426,625	Tinos	44,276
Magnisia *	373,851	Naxos	32,394
Korinthos	264,560	Ios	19,662
Mykonos	263,577	Limnos	19,194
Pieria	196,443	Ikaria	9,026

Source: as table 3

¹ Athens was not included in the list due to its much wider role in the arrival of tourists

*Coast area having the islands of Alonisos and Skopelos

**Coast area having the island of Samothrace

However, the instability in the tourism industry should be noted. Tourism development every year depends on factors with significant uncertainty such as disposable income, natural disasters in the tourist destination or global problems such as the case of covid-19 pandemic. In a study realized by INSETE with reference to top tourist

markets for Greece, due to the covid-19 pandemic, consumers have postponed the cost of holidays and travel in a greater degree compared to other consumer goods and services, (INSETE 2020). Consumers have postponed the cost of holidays and travel: the percentage of this decision amounts to 40% of the Germans, 49% of the British, 44% of the Americans, 37% of the French, 49% of the Italians, and 56% of the Romanians (INSETE 2020).

5. Conclusions

During the decade of the 2010s, characterizing the economic crisis of Greece, the establishment of new microbreweries occurred. More than 40 microbreweries were created and continue to function during the period 2010-2019 in all Greek regions. The paper was interested in the reasons for this phenomenon; investigating on the one hand hypotheses adopted by the international literature and on the other hand hypotheses considered more close to Greek specificities. The investigation was conducted through a questionnaire and visits to over 50 microbreweries throughout all Greek regions. Answers were received from 34 microbreweries from all Greek regions. There was a distinction maintained between those from islands and those from continental Greece in order to have a clearer image on particularities between microbreweries on the islands and those on continental Greece.

On the first set of hypotheses, our findings are quite close to the literature. The role of internet and social media seems to be important for all microbreweries in order to acquire necessary information on the brewery industry but it is not essential for the sales of their production. Microbrewers adopt an argument and attitude that are different from the big breweries; further they agree on cooperating between themselves. Localism seems obvious for the Greek microbreweries.

The second set of hypotheses has not been examined to previous literature. It was related to what we considered as Greek peculiarities but they could also have a more general character. The first examined hypothesis was on the role of unemployment on the decision to create and work in a microbrewery; during this period of time unemployment and the search for new jobs have been crucial in Greece. The second examined hypothesis was on the ways of financing the investment and especially on the role of grants from European and national programs; these financial programs were introduced in the 1990s helping investments especially in the agro-food sector in Greece. The third hypothesis was related to the role of tourism. The findings are very interesting and in some cases they overturn the beliefs that were considered at the beginning of the research. Unemployment was not considered a reason for the creation of and work in a microbrewery. It seems therefore that more is to have a vision for this kind of work. Public financial help may have played a role but it is not a principal reason for the creation of the microbrewery; self-financing and bank loans contributed significantly to the financing of the investment. Finally, the tourist market is a main market for the sales of microbreweries, especially in the islands. The results of this research may be useful for studies in other countries having similar geographic and economic characteristics, such as the importance of tourism and the economic crisis Greece faced during this period.

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Islamic Financial Literacy and Its Determinants: A Field Study on Turkey

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Abstract With the increasing interest in Islamic finance and banking in recent years, the issue of Islamic financial literacy has become very important. With the development and increase of Islamic financial products, it is possible to make the right choice and make right decisions about Islamic financial products by mastering Islamic financial literacy. The purpose of the current study is to determine the Islamic financial literacy level of people living in Turkey and to identify the factors affecting their level of Islamic financial literacy. To this end, a questionnaire was administered to 479 people in Turkey. The questionnaire consists of 47 items gathered under four sub-dimensions called “General Islamic Finance”, “Islamic Products”, “Islamic Financial Calculation” and “Islamic Financial Institutions and Activities”. In the current study, t-test, ANOVA and post-hoc tukey test were used. As a result of the analyses, the Islamic financial literacy level of the participants was found to be low. Moreover, the variables such as gender, age, profession, marital status, being a customer of a Islamic bank were found to have effects on the level of Islamic financial literacy.

Keywords: Financial literacy, Islamic financial literacy, Islamic banking, Islamic finance, demographic variables.

JEL Classification: G21, G53, J10.

1. Introduction

Islamic banking system in Turkey has been operating for nearly 35 years since the first Islamic bank was founded in 1985. Changes have been experienced in the Islamic banking system and the system has shown a continuous development since 1985. In its current state, Turkey is rapidly becoming one of the most important centres of Islamic

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finance and banking in the world. Currently, six Islamic banks operate in Turkey. Three of these banks continue their financial activities as public banks. The other three Islamic banks are foreign capital banks. The fact that Islamic banks operate in the banking sector, compete with conventional banks and offer new products and alternatives is important for all Muslim and non-Muslim customers. Kontot et al. (2016) stated that after many shocks in the conventional banking system in recent years, Islamic banking and finance has attracted global attention. To date, many academic studies have been conducted on the financial performance of Islamic banks, their situation in the face of financial crises, and their risk and management approaches. However, there is limited research on Islamic financial literacy.

Financial literacy is facing increasing interest from many groups such as governments, investors, bankers, capital markets and academics, especially in developing countries (Ganesan et al., 2020). Development of new financial products, complex structure of financial markets, political changes, demographic and economic factors are effective in increasing interest in financial literacy (Al-Tamimi and Kalli, 2009: 500). In addition, the effect of changes and developments in information technologies on economic and financial systems in the world makes financial literacy more important. While Miller et al. (2009) draws attention to the importance of financial literacy, they point to the effect of many factors such as evaluation of financial services and products that are becoming increasingly complex, the processes of making decisions for these products, methods of dealing with financial difficulties, improving financial behaviour and increasing the quality of financial services.

Today, the inadequacy of financial knowledge and skills of young population faced with complex financial structures, products and services increases the concerns of both families and authorities about financial literacy. Ganesan et al. (2020) state that low level of financial information will create major problems for countries. In their study conducted among university students in Malaysia, Sabir et al. (2008) found that students tend to spend for non-academic purposes, and their tendency to save after receiving scholarships or student loans is extremely low. Similarly, İbrahim et al. (2009) attributed the poor money management skills of university students to low financial literacy in Malaysia. Er and Mutlu (2017) developed a questionnaire based on the OECD financial literacy index and administered this questionnaire to 388 people. The questionnaire consists of 4 sections. These sections are Islamic financial literacy knowledge index, attitude index, behaviour index and general index. In the study, the Islamic financial literacy index was calculated to be 58% and it was commented that this value was low and thus Islamic financial literacy should be developed.

Since 2015, three Islamic state banks have been established in Turkey. Increasing the number of Islamic banks and their share in the banking sector is supported by the state. Thus, the developing Islamic banking in Turkey makes it necessary to investigate the state of financial literacy in Turkey. Since the products of Islamic banking are structurally different from those of conventional banks and they are distinguished from conventional banks in terms of fundraising and funding methods, society can make correct financial decisions only if they have Islamic financial literacy. As the financial

literacy levels of individuals affect their financial perceptions, attitudes and behaviours (Ganesan, 2020; Ahmad, 2020; Eliza & Susanti, 2020), Islamic financial literacy levels are also effective in the preference of the Islamic financial system (Çömlekçi, 2017; Zaman et al., 2017).

The purpose of the current study is to determine the level of Islamic financial literacy in Turkey and the determinants of Islamic financial literacy. In this framework, a questionnaire was administered to 476 people in Turkey. As a result of the study, it was determined that the Islamic financial literacy levels of the participants are low. In addition, it was concluded that demographic variables and the status of being an Islamic bank customer affect the level of Islamic financial literacy. The results obtained from this study are important for Turkey. In Turkey, Islamic finance and banking are in the stage of development and also supported by the state. Accordingly, achieving the expected benefit from Islamic finance and Islamic banking will be possible with the development of Islamic financial literacy. In this respect, it is important for policy makers to implement policies that will ensure the development of Islamic financial literacy.

The current study consists of five sections. After the introduction that constitutes the first section, the second section includes the literature review. In the third section, the methodology of the study is presented and in the fourth section of the study, the findings of the study are discussed and in the last section, discussion and results are presented.

2. Literature Review

The concept of financial literacy is associated with many concepts, including financial knowledge, financial ability, financial education and financial competence. Although Zait and Berteau (2015) state that these concepts can be used interchangeably, there are also studies revealing that each concept has a different meaning. For example, Huston (2010) considers financial education as a human resource investment in financial knowledge and practices. Atkinson and Messy (2012: 14) define financial literacy as “the sum of awareness, knowledge, skills, attitudes and behaviours needed to make healthy financial decisions and ultimately achieve financial prosperity”. The definition of financial literacy by the Organization for Economic Development and Cooperation (OECD) is as follows: “the process of increasing financial welfare by ensuring that financial consumers are informed about financial products and concepts or have enough awareness to make choices between financial risks and alternatives.” As a result of the increasing importance of financial literacy, the International Network on Financial Education (INFE) has been established within the OECD to determine the financial literacy levels of people living in various countries of the world. INFE aims to measure people’s attitudes towards basic issues related to budgeting, fund management, short and long-term financial decisions and financial product selection with the questionnaire developed to determine financial literacy levels. The financial knowledge score was developed with the questionnaire developed by INFE and applied to 14 different countries. As a result of the comprehensive survey, it was determined that the participants could not get high financial literacy scores.

Remund (2010) stated that financial literacy definitions include 5 dimensions:

- i. Financial concept knowledge,
- ii. Competence to comment on financial concepts,
- iii. Ability to manage personal finance,
- iv. Ability to make appropriate financial decisions,
- v. Ability to effectively plan future financial needs.

With the dimensions he described, Remund (2010) has revealed the key concepts of various financial literacy studies. Rahim et al. (2016) defined Islamic financial literacy as “the ability to use financial knowledge, ability and attitude while managing financial resources according to Islamic techniques” with a definition similar to that of financial literacy. It is seen that recent national and international research on financial literacy has addressed different aspects of financial literacy. Some of these studies are focused on investors (Al-Tamimi and Kalli, 2009; van Rooij et al., 2011; Almenberg and Dreber, 2015; Krische, 2019), some of them are focused on demographic features (Hogart, 2002; Lusardi and Mitchell, 2011; Ansong and Gyensare, 2012, Doğan; 2019), some of them are focused on students (Chen and Volpe, 2002; Beal and Delpachtira, 2003; Louw et al., 2013; Kılıç et al., 2015; Biçer and Altan, 2016).

2.1 Dimension of Islamic Financial Literacy

The basis of Islamic finance is its strict adherence to Islamic law (Sharia) and the prohibition of interest on financial transactions (Salman and Ausaf, 2004; Khan and Bhatti, 2008). According to Chapra (1985), Islamic finance is a value-based and asset-based system and should strive to achieve Islamic goals such as social equality, poverty reduction and human well-being. In this context, Islamic financial literacy can be defined as understanding and applying finance on the basis of Islamic law (Abdul Hamid and Mohd. Nordin; 2001). Houston (2010) distinguished the concepts of financial knowledge and financial literacy from each other and defined Islamic financial literacy as “the knowledge gained through the use of Islamic financial products and concepts”. One of the main problems faced by Islamic finance is the shortage of sufficient human resources to develop Islamic financial products and services (Abdullah and Anderson, 2015). In recent years, there has been an increase in studies aiming to determine the financial literacy levels of university students. University students represent the demographically young part of the countries and their human resources. In this respect, the financial literacy level of university students is important for making the right financial decisions. However, it is seen that conclusions have been reached in studies showing that both financial literacy and Islamic financial literacy levels are low among university students (Sabir et al., 2008; İbrahim et al., 2009; Rahim et al., 2016; Durmuş and Yardımcıoğulları, 2018). For example, Durmuş and Yardımcıoğlu (2018) researched the financial literacy and Islamic financial literacy levels of the students of the Faculty of Theology using the survey method. In the study conducted on 269 students at Sakarya University, it was concluded that the students of theology were not literate of Islamic finance. The use of different criteria by researchers in the measurement of Islamic financial literacy is another aspect of the issue (Hidajat and Hamdani; 2017). It is seen that the questionnaire method is

widely used to calculate Islamic financial literacy scores or to determine the Islamic financial literacy levels of individuals (Abdullah and Anderson, 2015; Antara et al., 2016; Zaman et al., 2017; Er and Mutlu, 2017; Sapir and Ahmad, 2020). In addition, the factors affecting Islamic financial literacy should be investigated for the development of Islamic finance (Eliza and Susanti, 2020). In this context, demographic differences (Abdullah and Razak; 2015; Çömlekçi, 2017; Abdullah et al., 2017; Albaity and Rahman, 2019; Eser and Yiğiter; 2020; Daradkah et al., 2020), attitudes, knowledge and behaviours (Zaman et al., 2017; Bekereci, 2018; Ganesan, 2020), religious beliefs and education (Rahim et al., 2016; Zaman et al., 2017; Suci and Hardi, 2020; Ahmad et al., 2020) have been reported to be the factors affecting the level of Islamic financial literacy. For example, in the study conducted by Çömlekçi (2017) to determine the Islamic financial literacy levels of Islamic bank customers, it was found that the level of Islamic financial knowledge and Islamic financial literacy is low. In the study, it was concluded that demographic variables such as gender, age, education level, occupational group and income status are effective on Islamic financial knowledge and Islamic financial literacy level. Abdullah et al. (2017) concluded that gender has a significant correlation with Islamic financial literacy and Albaity and Rahman (2019) found that the level of Islamic financial literacy changes as a function of gender, income status and work experience. Eser and Yiğiter (2020) found that male Islamic bank customers' level of financial literacy is higher than that of female customers.

Daradkah et al. (2020) concluded in their study conducted in Jordan that demographic variables such as education level, region of residence and study area have a significant correlation with the level of Islamic financial literacy. Sapir and Ahmad (2020) revealed that financial education and practices affect the financial literacy score. In addition, it was concluded in the study that social environment and interaction increase the level of financial literacy. The research results of Suci and Hardi (2020) support the results of Sapir and Ahmad (2020). Suci and Hardi (2020) provided financial consultancy to Muslim and non-Muslim firms, and then concluded that the financial literacy level of both groups increased.

In light of all the studies and findings mentioned above, we have developed our first hypothesis.

H₁: Demographic variables are effective on Islamic financial literacy.

Having knowledge about Islamic financial products and services is closely associated with the level of Islamic financial literacy and the tendency to use Islamic products (Abdullah and Anderson, 2015; Antara, 2016; Zaman, 2017; Ahmad et al., 2020). Although Islamic finance is developing in the world, the centre of Islamic banking and finance is Muslim countries today. Today, almost the whole sukuk market, which has an important place in the Islamic finance market, is dominated by the Muslim countries such as the Gulf Cooperation countries, Malaysia, Indonesia, Turkey and Pakistan (<https://www.fitchratings.com/research/islamic-finance/sukuk-issuance-rose-in-2019-as-diversification-continues-11-02-2020>). In this respect, a greater awareness is expected from Muslim countries about Islamic financial literacy and they are thought to have

more information about Islamic financial products and services. The study conducted by Abdullah and Anderson (2015) is important in terms of explaining the effect of Islamic financial knowledge and trend on Islamic financial literacy. In this study, Abdullah and Anderson (2015) conducted a comprehensive research on bankers in Kuala Lumpur / Malaysia and identified nine factors affecting the level of financial literacy. These factors include views on banking products, views on Islamic banking products, parents' influence on the views of Islamic products and services, factors affecting investments in securities, views on conventional banking products, attitudes towards personal financial management, effect of personal financial management and knowledge about wealth planning and management. Antara et al. (2016) concluded that the basic determinants are knowledge of Islamic finance principles and Islamic finance methods. Zaman et al. (2017) concluded that the service quality and legitimacy of Islamic banking have an impact on the adoption of Islamic banking products and services. Ahmad et al. (2020) identified compliance with Sharia and knowledge of the concepts of interest and profit/loss as two main dimensions that determine financial literacy. Similarly, Ganesan et al. (2020), in their study in Malaysia, concluded that if Islamic banking customers intend to have information about Islamic finance issues, their behaviours, attitudes and personal judgments are affected by this. In this connection, we have developed the second hypothesis of the study.

H₂: Being a customer of an Islamic bank is influential on the level of Islamic financial literacy.

Studies on the determinants and measurement of Islamic financial literacy can be seen in the literature given in detail above. In addition, there are studies investigating Islamic financial literacy in different dimensions, and the results obtained have given the opportunity to evaluate the subject from different aspects. Studies that measure the effect of professional groups on Islamic financial literacy can be shown as an example. Çömlekçi (2017), Er and Mutlu (2017) and Daradkah et al. (2020) addressed the issue in relation to occupational groups. Studies have revealed different results regarding the effect of occupational groups on the level of Islamic financial literacy. Çömlekçi (2017) reached the conclusion that public employees have a high level of Islamic financial literacy, while Er and Mutlu (2017) determined the Islamic financial literacy level of private sector employees is higher. Daradkah et al. (2020) could not find a relationship between the occupational group and the level of Islamic financial literacy. In this connection, we have developed the third hypothesis of the study.

H₃: Professional group is influential on the level of Islamic financial literacy.

As a result, there is an extensive literature on financial literacy, the factors affecting financial literacy and their importance. However, much of the empirical research done to date has focused on conventional financial literacy, and Islamic financial literacy has been a subject to a limited amount of research (Eliza and Susanti, 2020; Daradkah et al., 2020). As the current study has reached some results regarding Islamic financial literacy in Turkey, it is believed to make important contributions to the literature. The new findings obtained are important as they provide new evidence.

3. Research Methodology

3.1. Purpose of the Study

The purpose of the current study is to identify the level of Islamic financial literacy of the individuals living in Turkey and to determine the demographic variables affecting the level of Islamic financial literacy. In this context, it was investigated whether the demographic variables such as gender, age, marital status, income status, education level, the sector of employment and the state of being a customer of an Islamic bank have effects on the level of Islamic financial literacy. Islamic financial literacy was divided into 4 dimensions and the levels of individuals for each dimension were evaluated as either basic level or advanced level and on the basis of the total score. These dimensions were grouped as “*General Islamic Finance*”, “*Islamic Products*”, “*Islamic Finance Calculations*”, “*Islamic Finance Institutions and Operations*” and then the total Islamic financial literacy levels of individuals were calculated.

3.2. Population and Sample of the Study

The population of the current study is all the people aged 18 or over and living in Turkey while the sample of the study is comprised of 476 people. The questionnaire was administered to the participants in the period between July and September 2020. The questionnaire was administered online and people from a total of 32 different cities participated in the survey. In Turkey, there were about 57 million people aged 18 or over and living in Turkey in 2020. For a sample of 476 people and a population of 57 million, the margin of error arising from the sample at 95% confidence level is 4.49%.

3.3. Data Collection Tool

In the current study, the Islamic Financial Literacy Questionnaire was used. The Islamic Financial Literacy Questionnaire consists of 4 dimensions. For each correct answer to each item in the questionnaire, 1 point is assigned while no point is assigned when no answer or false answer is given or the option “Don’t know” is marked. Then, by summing the points, the total score of each participant is calculated.

The questionnaire has two sections. The first section (Items 1-6) includes items to elicit demographic information. In the second section, there is the financial literacy scale consisted of 38 items. The items 1, 2, 4, 9, 10, 15, 20, 22, 28, 29, 30 and 31 are the items originally used by Louw, Fouche and Jaco (2013) and adapted to Turkish by Kılıç, Ata and Seyrek (2012), the item 21 is the item originally used by Chen and Volpe (1998) and adapted to Turkish by Kılıç, Ata and Seyrek (2012); the items 26 and 27 are the items originally used by Knoll and Huts (2012) and adapted to Turkish by Kılıç, Ata and Seyrek (2012); the items 34, 36, and 38 are the items originally used by Chinen and Endo (2012) and adapted to Turkish by Kılıç, Ata and Seyrek (2015).

The first 32 items can be responded with one of the following options “True”, “False” and “Don’t know”. The items 33-38 are multiple choice items. The financial literacy dimensions used in the scale were divided into four groups. These groups are as follows;

Table 1. Items in the Dimensions of Islamic Financial Literacy

Scale and Dimensions	Survey Items
General Islamic Finance (Total)	3,4,5,7,8,9,12,13,17,18,19,20,22,39,40,41,42
<i>General Islamic Finance (Advanced)</i>	19,20
<i>General Islamic Finance (Basic Level)</i>	3,4,5,7,8,9,12,13,17,18, 22,39,40,41,42
Islamic Products (Total)	6,10,11,14,16,21,24,25,26,27,36,37,38
<i>Islamic Products (Advanced)</i>	11,14,21,27,36,37
<i>Islamic Products (Basic Level)</i>	6,10,16,24,25,26,27,38
Islamic Finance Calculations (Total)	23,29,30,32,33,34,35
<i>Islamic Finance Calculations (Advanced)</i>	29,30
<i>Islamic Finance Calculations (Basic Level)</i>	23,32,33,34,35
Islamic Finance Institutions and Operations (Total)	1,2,15,28,31,43,44,45,46,47
<i>Islamic Financial Institutions and Operations (Advanced)</i>	15,44,45,46,47
<i>Islamic Financial Institutions and Operations (Basic Level)</i>	1,2,28,31,43
Islamic Financial Literacy (Total)	1-47
<i>Islamic Financial Literacy (Total Advanced)</i>	11,14,15,19,20,21,27,29,30,36,37,44,45,46,47
<i>Islamic Financial Literacy (Total Basic Level)</i>	1-10 12,13,16,17,18,22-26,28,31-35,38-43

3.4. Research Method

As the data obtained were found to be normally distributed, two of the parametric tests; t-test and ANOVA, were used. Post-Hoc Tukey test was used to make multiple comparisons between the groups in ANOVA test. In addition, descriptive statistics obtained for the data about demographic features are given in the current study.

4. Findings

In this section of the study, findings related to the level of Islamic financial literacy of the participants living in Turkey are given.

Table 2. Demographic Information of Participants

	Features	N	%		Features	N	%
Gender	Female	204	42.9	Having an account in an Islamic bank	Yes	133	27.9
	Male	272	57.1		No	343	72.1

	Features	N	%		Features	N	%
Age	18-25	348	73.1	How many different Islamic bank accounts do you have?	1	78	16.4
	26-35	62	13.0		2	35	7.4
	36-50	46	9.7		3 and over	20	4.2
	51 and over	20	4.2		Less than 1 year	18	3.8
Marital status	Single	370	77.7	How many years have you had an Islamic bank account?	1-3 years	62	13.0
	Married	106	22.3		3-5 years	33	6.9
Education	Primary	20	4.2		5-10 years	14	2.9
	High School	128	26.9		10 years and over	6	1.3
	Associate degree	194	40.8		Public sector	72	15.1
Income	Bachelor and over	134	28.2	Occupation	Private sector	108	22.7
	1500 TL and below	240	50.4		Self-employed	32	6.7
	1501 TL-2500 TL	74	15.5		Retired	12	2.5
	2501 TL-4000 TL	90	18.9		Unemployed	252	52.9
	4001 TL-6000 TL	40	8.4				
	6001 TL and over	32	6.7				

Table 2 includes demographic and Islamic banking information of the individuals participating in the study. According to the results, most of the participants are single and between the ages of 18-25. In addition, 57.1% of the individuals participating in the study are males, 40.8% hold an associate's degree, 50.4% have an income of 1500 TL or less, and 22.7% are working in the private sector. In addition, 27.9% of the participants have an account in an Islamic bank. While 16.4% of the participants have an account only in one Islamic bank, 13% of them have had an account in an Islamic bank for 1-3 years.

Table 3. Descriptive Statistics for the Dimensions of Islamic Financial Literacy

Dimensions	True (%) (Mean)	Std. Dev.
General Islamic Finance (Total)	33.79	21.81
<i>General Islamic Finance (Advanced)</i>	33.40	41.39
<i>General Islamic Finance (Basic Level)</i>	33.70	21.92
Islamic Products (Total)	28.31	28.98
<i>Islamic Products (Advanced)</i>	27.03	32.37
<i>Islamic Products (Basic Level)</i>	29.41	29.04
Islamic Finance Calculations (Total)	29.95	30.64
<i>Islamic Finance Calculations (Advanced)</i>	27.52	37.68
<i>Islamic Finance Calculations (Basic Level)</i>	30.92	33.26
Islamic Finance Institutions and Operations (Total)	35.38	27.55
<i>Islamic Financial Institutions and Operations (Advanced)</i>	32.10	33.96
<i>Islamic Financial Institutions and Operations (Basic Level)</i>	38.66	26.88
Islamic Financial Literacy (Total)	32.06	23.72
<i>Islamic Financial Literacy (Total Advanced)</i>	29.64	29.67
<i>Islamic Financial Literacy (Total Basic Level)</i>	33.20	22.35

As can be seen in Table 3, the total Islamic financial literacy is 32.06% while the total basic level Islamic financial literacy is 33.20% and the total advanced Islamic literacy is 29.64%. The highest literacy level was found for the dimension of “Islamic Financial Institutions and Operations” (35.38%) while the lowest literacy level was found for the dimension of “Islamic Products” (27.03%).

Table 4. Comparison of Islamic Financial Literacy Levels by Gender

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
General Islamic Finance (Total)	Female	204	33.97	22.67	.875
	Male	272	33.65	21.18	
<i>General Islamic Finance (Advanced)</i>	Female	204	36.27	40.41	.190
	Male	272	31.25	42.06	
<i>General Islamic Finance (Basic Level)</i>	Female	204	33.56	22.57	.908
	Male	272	33.80	21.47	
Islamic Products (Total)	Female	204	27.90	29.21	.790
	Male	272	28.62	28.86	

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
<i>Islamic Products (Advanced)</i>	Female	204	25.98	32.21	.540
	Male	272	27.82	32.53	
<i>Islamic Products (Basic Level)</i>	Female	204	29.55	29.56	.928
	Male	272	29.31	28.69	
Islamic Finance Calculations (Total)	Female	204	33.89	31.19	.015**
	Male	272	27.00	29.94	
<i>Islamic Finance Calculations (Advanced)</i>	Female	204	29.41	38.03	.344
	Male	272	26.10	37.43	
<i>Islamic Finance Calculations (Basic Level)</i>	Female	204	35.69	34.11	.007***
	Male	272	27.35	32.22	
Islamic Finance Institutions and Operations (Total)	Female	204	38.24	28.88	.050**
	Male	272	33.24	26.36	
<i>Islamic Finance Institutions and Operations (Advanced)</i>	Female	204	32.94	35.36	.641
	Male	272	31.47	32.93	
<i>Islamic Finance Institutions and Operations (Basic Level)</i>	Female	204	43.53	27.28	.001***
	Male	272	35.00	26.03	
Islamic Financial Literacy (Total)	Female	204	33.17	24.62	.378
	Male	272	31.23	23.04	
<i>Islamic Financial Literacy (Total Advanced)</i>	Female	204	30.13	29.96	.753
	Male	272	29.26	29.51	
<i>Islamic Financial Literacy (Total Basic Level)</i>	Female	204	34.59	23.48	.238
	Male	272	32.15	21.44	

*10%, **5% and ***1% statistical significance.

The results of the independent samples t-test conducted to determine the relationship between the participants' gender and Islamic literacy level are presented in Table 4. According to the results of the analysis, the scores taken from the dimensions of "Islamic Finance Calculations" and "Islamic Institutions and Operations" vary significantly by gender at the basic level and in total. In other words, the scores of the female participants are higher than those of the male participants taken from the dimensions of "Islamic Finance Calculations" and "Islamic Financial Institutions and Operations" at the basic level and in total. On the other hand, the scores taken from the dimensions of "Islamic Finance Calculations" and "Islamic Financial Institutions and Operations" do not vary significantly by gender at the advanced level. Similarly, the scores taken from the dimensions of basic and advanced level "General Islamic Finance" and "Islamic Products" and the total financial literacy were found to be not varying significantly depending on gender.

Table 5. Comparison of Islamic Financial Literacy Levels by Marital Status

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
General Islamic Finance (Total)	Female	370	32.69	21.10	.040**
	Male	106	37.63	23.82	
<i>General Islamic Finance (Advanced)</i>	Female	370	31.08	39.56	.022**
	Male	106	41.51	46.53	
<i>General Islamic Finance (Basic Level)</i>	Female	370	32.72	21.54	.069*
	Male	106	37.11	23.00	
Islamic Products (Total)	Female	370	28.19	27.87	.864
	Male	106	28.74	32.73	
<i>Islamic Products (Advanced)</i>	Female	370	26.58	31.06	.568
	Male	106	28.62	36.71	
<i>Islamic Products (Basic Level)</i>	Female	370	29.58	28.18	.819
	Male	106	28.84	31.97	
Islamic Finance Calculations (Total)	Female	370	29.96	30.49	.990
	Male	106	29.92	31.33	
<i>Islamic Finance Calculations (Advanced)</i>	Female	370	28.65	37.77	.223
	Male	106	23.58	37.29	
<i>Islamic Finance Calculations (Basic Level)</i>	Female	370	30.49	32.99	.592
	Male	106	32.45	34.30	
Islamic Finance Institutions and Operations (Total)	Female	370	34.49	26.54	.187
	Male	106	38.49	30.76	
<i>Islamic Finance Institutions and Operations (Advanced)</i>	Female	370	31.68	32.76	.610
	Male	106	33.58	38.00	
<i>Islamic Finance Institutions and Operations (Basic Level)</i>	Female	370	37.30	26.41	.039**
	Male	106	43.40	28.08	
Islamic Financial Literacy (Total)	Female	370	31.44	22.86	.292
	Male	106	34.20	26.54	
<i>Islamic Financial Literacy (Total Advanced)</i>	Female	370	29.15	28.46	.508
	Male	106	31.32	33.65	
<i>Islamic Financial Literacy (Total Basic Level)</i>	Female	370	32.52	21.69	.218
	Male	106	35.56	24.47	

*10%, **5% and ***1% statistical significance.

The results of the t-test conducted to compare the participants' Islamic financial literacy levels by marital status are presented. According to the results, the general Islamic finance knowledge level varies significantly depending on marital status. Similarly, the scores taken from the dimension of basic level "Islamic Finance Institutions and

Operations” vary significantly depending on marital status. In other words, the general Islamic finance knowledge level and Islamic institutions and operations knowledge level of the married participants are higher than those of the single participants. On the other hand, the total Islamic financial literacy score and the scores taken from the other dimensions were found to be not varying significantly depending on marital status.

Table 6. Comparison of Islamic Financial Literacy Levels by Age

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
General Islamic Finance (Total)	25 and under	348	31.91	20.44	.002***
	26 and over	128	38.88	24.52	
<i>General Islamic Finance (Advanced)</i>	25 and under	348	31.03	40.35	.039**
	26 and over	128	39.84	43.63	
<i>General Islamic Finance (Basic Level)</i>	25 and under	348	31.90	20.78	.003***
	26 and over	128	38.59	24.17	
Islamic Products (Total)	25 and under	348	27.76	27.59	.496
	26 and over	128	29.81	32.55	
<i>Islamic Products (Advanced)</i>	25 and under	348	25.77	30.92	.160
	26 and over	128	30.47	35.93	
<i>Islamic Products (Basic Level)</i>	25 and under	348	29.47	27.99	.938
	26 and over	128	29.24	31.81	
Islamic Finance Calculations (Total)	25 and under	348	29.64	30.25	.714
	26 and over	128	30.80	31.79	
<i>Islamic Finance Calculations (Advanced)</i>	25 and under	348	27.87	37.37	.737
	26 and over	128	26.56	38.65	

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
<i>Islamic Finance Calculations (Basic Level)</i>	25 and under	348	30.34	33.11	.531
	26 and over	128	32.50	33.77	
Islamic Finance Institutions and Operations (Total)	25 and under	348	34.20	26.87	.123
	26 and over	128	38.59	29.21	
<i>Islamic Finance Institutions and Operations (Advanced)</i>	25 and under	348	31.61	33.21	.603
	26 and over	128	33.44	36.03	
<i>Islamic Finance Institutions and Operations (Basic Level)</i>	25 and under	348	36.78	26.54	.012**
	26 and over	128	43.75	27.23	
Islamic Financial Literacy (Total)	25 and under	348	30.95	22.50	.093*
	26 and over	128	35.07	26.63	
<i>Islamic Financial Literacy (Total Advanced)</i>	25 and under	348	28.70	28.31	.256
	26 and over	128	32.19	33.08	
<i>Islamic Financial Literacy (Total Basic Level)</i>	25 and under	348	32.01	21.30	.056*
	26 and over	128	36.43	24.76	

*10%, **5% and ***1% statistical significance.

In Table 6, the results of the comparisons of the participants' Islamic financial literacy levels by age are presented. Age ranges of the participants are not homogeneous. Therefore, the age ranges of the participants were made homogeneous by dividing them into 2 groups. As a result of the analysis, it was found that the scores taken from the dimensions of basic level "General Islamic Finance" and "Islamic Finance Institutions and Operations" and the total Islamic financial literacy vary significantly by age. In other words, the general Islamic finance, Islamic finance institutions and operations basic and total Islamic financial literacy levels of the participants aged 26 and over are higher than those of the participants aged 25 and under. On the other hand, scores taken from the other dimensions of Islamic financial literacy were found to be not varying significantly by age.

Table 7. Comparison of Islamic Financial Literacy Levels by Education Level

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
General Islamic Finance (Total)	High School	148	30.21	20.50	.024**
	Associate's Degree	194	36.69	20.40	
	Bachelor and over	134	33.54	24.57	
<i>General Islamic Finance (Advanced)</i>	High School	148	30.41	42.71	.019**
	Associate's Degree	194	39.69	40.04	
	Bachelor and over	134	27.61	40.93	
<i>General Islamic Finance (Basic Level)</i>	High School	148	30.18	20.84	.048**
	Associate's Degree	194	36.01	20.74	
	Bachelor and over	134	34.23	24.29	
Islamic Products (Total)	High School	148	25.05	25.13	.255
	Associate Degree	194	29.98	29.37	
	Bachelor and over	134	29.51	32.14	
<i>Islamic Products (Advanced)</i>	High School	148	25.00	29.64	.648
	Associate's Degree	194	28.18	32.13	
	Bachelor and over	134	27.61	35.58	
<i>Islamic Products (Basic Level)</i>	High School	148	25.10	24.81	.092*
	Associate's Degree	194	31.52	29.58	
	Bachelor and over	134	31.13	32.10	
Islamic Finance Calculations (Total)	High School	148	26.06	27.62	.063*
	Associate's Degree	194	33.73	31.61	
	Bachelor and over	134	28.78	31.97	

<i>Islamic Finance Calculations (Advanced)</i>	High School	148	22.30	33.14	.127
	Associate's Degree	194	29.90	37.17	
	Bachelor and over	134	29.85	42.53	
<i>Islamic Finance Calculations (Basic Level)</i>	High School	148	27.57	30.72	.061*
	Associate's Degree	194	35.26	35.00	
	Bachelor and over	134	28.36	32.93	
Islamic Finance Institutions and Operations (Total)	High School	148	30.81	25.38	.048**
	Associate's Degree	194	37.94	27.43	
	Bachelor and over	134	36.72	29.55	
<i>Islamic Finance Institutions and Operations (Advanced)</i>	High School	148	26.76	31.35	.063*
	Associate's Degree	194	33.81	34.59	
	Bachelor and over	134	35.52	35.34	
<i>Islamic Finance Institutions and Operations (Basic Level)</i>	High School	148	34.86	25.57	.046**
	Associate's Degree	194	42.06	26.15	
	Bachelor and over	134	37.91	28.84	
Islamic Financial Literacy (Total)	High School	148	28.29	20.90	.046**
	Associate's Degree	194	34.70	23.22	
	Bachelor and over	134	32.39	26.81	
<i>Islamic Financial Literacy (Total Advanced)</i>	High School	148	25.95	26.77	.177
	Associate's Degree	194	31.82	29.23	
	Bachelor and over	134	30.55	33.01	
<i>Islamic Financial Literacy (Total Basic Level)</i>	High School	148	29.39	19.90	.024**
	Associate's Degree	194	36.05	21.91	
	Bachelor and over	134	33.26	24.92	

*10%, **5% and ***1% statistical significance.

Results of the One-Way Anova test conducted to compare the participants' Islamic literacy levels by education level are given in Table 7. According to the results of the analysis, the scores taken from the dimensions of "General Islamic Finance", "Islamic Finance Calculations" and "Islamic Finance Institutions and Operations" vary significantly depending on education level. On the other hand, the scores taken from the dimension of "Islamic Products" were found to be not varying significantly depending on education level. According to the results obtained from the Post HOC Tukey test, the Islamic financial literacy level of the participants having high school or lower education is significantly lower than that of the participants having education level higher than high school.

Table 8. Comparison of Islamic Financial Literacy Levels by Income Status

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
General Islamic Finance (Total)	1500 TL and below	240	32.55	21.73	.212
	1501 TL and over	236	35.04	21.87	
<i>General Islamic Finance (Advanced)</i>	1500 TL and below	240	33.33	40.05	.970
	1501 TL and over	236	33.47	42.80	
<i>General Islamic Finance (Basic Level)</i>	1500 TL and below	240	32.45	22.04	.209
	1501 TL and over	236	34.97	21.78	
Islamic Products (Total)	1500 TL and below	240	28.27	28.36	.974
	1501 TL and over	236	28.36	29.67	
<i>Islamic Products (Advanced)</i>	1500 TL and below	240	28.19	31.38	.430
	1501 TL and over	236	25.85	33.38	
<i>Islamic Products (Basic Level)</i>	1500 TL and below	240	28.33	28.33	.414
	1501 TL and over	236	30.51	29.76	
Islamic Finance Calculations (Total)	1500 TL and below	240	31.91	28.97	.161
	1501 TL and over	236	27.97	32.19	

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
<i>Islamic Finance Calculations (Advanced)</i>	1500 TL and below	240	30.83	38.91	.153
	1501 TL and over	236	24.15	36.16	
<i>Islamic Finance Calculations (Basic Level)</i>	1500 TL and below	240	32.33	31.39	.352
	1501 TL and over	236	29.49	35.08	
Islamic Finance Institutions and Operations (Total)	1500 TL and below	240	34.42	26.16	.443
	1501 TL and over	236	36.36	28.93	
<i>Islamic Finance Institutions and Operations (Advanced)</i>	1500 TL and below	240	30.83	32.41	.412
	1501 TL and over	236	33.39	35.50	
<i>Islamic Finance Institutions and Operations (Basic Level)</i>	1500 TL and below	240	38.00	25.80	.592
	1501 TL and over	236	39.32	27.97	
Islamic Financial Literacy (Total)	1500 TL and below	240	31.67	22.98	.717
	1501 TL and over	236	32.46	24.50	
<i>Islamic Financial Literacy (Total Advanced)</i>	1500 TL and below	240	30.11	27.93	.725
	1501 TL and over	236	29.15	31.39	
<i>Islamic Financial Literacy (Total Basic Level)</i>	1500 TL and below	240	32.40	22.12	.433
	1501 TL and over	236	34.01	22.59	

*10%, **5% and ***1% statistical significance.

In Table 8, the results of the comparison of the participants' Islamic financial literacy levels by income status are presented. The income ranges of the participants are not homogeneous. Therefore, the income ranges of the participants were made homogeneous by dividing them into 2 groups. As a result of the analysis, income status was found to have no significant effect on the Islamic financial literacy and its dimensions. Thus, it can be argued that there is no statistically significant difference between the Islamic financial literacy levels of the participants from different income statuses.

Table 9. Comparison of Islamic Financial Literacy Levels According to State of Being a Customer of an Islamic Bank

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
General Islamic Finance (Total)	Yes	133	39.45	23.49	.000***
	No	343	31.59	20.74	
<i>General Islamic Finance (Advanced)</i>	Yes	133	36.09	42.35	.378
	No	343	32.36	41.03	
<i>General Islamic Finance (Basic Level)</i>	Yes	133	39.90	23.41	.000***
	No	343	31.29	20.86	
Islamic Products (Total)	Yes	133	36.09	32.03	.000***
	No	343	25.30	27.17	
<i>Islamic Products (Advanced)</i>	Yes	133	33.33	35.47	.008***
	No	343	24.59	30.79	
<i>Islamic Products (Basic Level)</i>	Yes	133	38.45	31.41	.000***
	No	343	25.91	27.31	
Islamic Finance Calculations (Total)	Yes	133	33.94	31.78	.077*
	No	343	28.41	30.10	
<i>Islamic Finance Calculations (Advanced)</i>	Yes	133	32.33	39.50	.083*
	No	343	25.66	36.84	
<i>Islamic Finance Calculations (Basic Level)</i>	Yes	133	34.59	34.48	.135
	No	343	29.50	32.72	
Islamic Finance Institutions and Operations (Total)	Yes	133	41.88	28.87	.001***
	No	343	32.86	26.64	
<i>Islamic Finance Institutions and Operations (Advanced)</i>	Yes	133	37.89	35.95	.020**
	No	343	29.85	32.94	
<i>Islamic Finance Institutions and Operations (Basic Level)</i>	Yes	133	45.86	26.83	.000***
	No	343	35.86	26.41	
Islamic Financial Literacy (Total)	Yes	133	38.22	25.78	.000***
	No	343	29.67	22.47	
<i>Islamic Financial Literacy (Total Advanced)</i>	Yes	133	35.09	31.89	.012**
	No	343	27.52	28.54	
<i>Islamic Financial Literacy (Total Basic Level)</i>	Yes	133	39.69	24.11	.000***
	No	343	30.68	21.13	

*10%, **5% and ***1% statistical significance.

In Table 9, the results of the comparison of the participants' Islamic financial literacy levels by the state of being a client of an Islamic bank are presented. According to the results of the analysis, the scores taken from the dimensions of "General

Islamic Finance”, “Islamic Finance Institutions and Operations”, “Islamic Finance Calculations” and “Islamic Products” vary significantly depending on the state of being a client of an Islamic bank. In other words, the Islamic financial literacy level of the participants who are customers of an Islamic bank is higher than that of the participants who are not clients of an Islamic bank.

Table 10. Comparison of Islamic Financial Literacy Levels According to the Number of Islamic Banks Where the Participant Has an Account

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
General Islamic Finance (Total)	1 bank	78	42.23	23.02	.104
	2 and more	55	35.51	23.80	
<i>General Islamic Finance (Advanced)</i>	1 bank	78	34.62	41.33	.634
	2 and more	55	38.18	44.06	
<i>General Islamic Finance (Basic Level)</i>	1 bank	78	43.25	22.58	.049
	2 and more	55	35.15	23.95	
Islamic Products (Total)	1 bank	78	38.66	32.82	.272
	2 and more	55	32.45	30.79	
<i>Islamic Products (Advanced)</i>	1 bank	78	33.76	36.73	.869
	2 and more	55	32.73	33.94	
<i>Islamic Products (Basic Level)</i>	1 bank	78	42.86	32.23	.054
	2 and more	55	32.21	29.38	
Islamic Finance Calculations (Total)	1 bank	78	35.16	33.18	.599
	2 and more	55	32.21	29.89	
<i>Islamic Finance Calculations (Advanced)</i>	1 bank	78	35.90	41.01	.216
	2 and more	55	27.27	37.04	
<i>Islamic Finance Calculations (Basic Level)</i>	1 bank	78	34.87	35.81	.910
	2 and more	55	34.18	32.81	
Islamic Finance Institutions and Operations (Total)	1 bank	78	44.10	27.23	.292
	2 and more	55	38.73	31.03	
<i>Islamic Finance Institutions and Operations (Advanced)</i>	1 bank	78	41.54	35.42	.165
	2 and more	55	32.73	36.39	
<i>Islamic Finance Institutions and Operations (Basic Level)</i>	1 bank	78	46.67	25.52	.683
	2 and more	55	44.73	28.79	
Islamic Financial Literacy (Total)	1 bank	78	40.59	26.16	.208
	2 and more	55	34.86	25.08	
<i>Islamic Financial Literacy (Total Advanced)</i>	1 bank	78	36.75	32.41	.476
	2 and more	55	32.73	31.28	

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
<i>Islamic Financial Literacy (Total Basic Level)</i>	1 bank	78	42.39	24.42	.124
	2 and more	55	35.86	23.35	

*10%, **5% and ***1% statistical significance.

In Table 10, the results of the comparison of the participants' Islamic financial literacy levels according to the number of Islamic banks where the participant has an account are presented. As a result of the analysis, it was concluded that the scores of the participants having only one account in one Islamic bank taken from the dimensions of basic level "General Islamic Finance" and "Islamic Products" are higher than those of the participants having accounts in 2 or more Islamic banks. On the other hand, the literacy scores taken from the other dimensions of financial Islamic literacy were found to be not varying significantly depending on the number of the Islamic banks where the participant has an account. Thus, it can be argued that the number of the Islamic banks where the participant has an account did not create a significant effect on the total Islamic financial literacy.

Table 11. Comparison of Islamic Financial Literacy Levels Depending on the Length of Time during which the Participant Has Had an Account in an Islamic Bank

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
General Islamic Finance (Total)	Less than 3 years	80	40.74	20.78	.441
	More than 3 years	53	37.51	27.18	
<i>General Islamic Finance (Advanced)</i>	Less than 3 years	80	33.75	39.60	.436
	More than 3 years	53	39.62	46.37	
<i>General Islamic Finance (Basic Level)</i>	Less than 3 years	80	41.67	21.31	.287
	More than 3 years	53	37.23	26.26	
Islamic Products (Total)	Less than 3 years	80	38.27	31.23	.337
	More than 3 years	53	32.80	33.23	
<i>Islamic Products (Advanced)</i>	Less than 3 years	80	35.00	35.34	.508
	More than 3 years	53	30.82	35.86	
<i>Islamic Products (Basic Level)</i>	Less than 3 years	80	41.07	30.19	.239
	More than 3 years	53	34.50	33.08	

Islamic Financial Literacy Dimensions	Groups	F	Mean (%)	Std. Dev.	P
Islamic Finance Calculations (Total)	Less than 3 years	80	35.36	31.66	.530
	More than 3 years	53	31.81	32.14	
<i>Islamic Finance Calculations (Advanced)</i>	Less than 3 years	80	36.25	40.55	.161
	More than 3 years	53	26.42	37.47	
<i>Islamic Finance Calculations (Basic Level)</i>	Less than 3 years	80	35.00	34.20	.866
	More than 3 years	53	33.96	35.21	
Islamic Finance Institutions and Operations (Total)	Less than 3 years	80	41.75	26.80	.950
	More than 3 years	53	42.08	32.01	
<i>Islamic Finance Institutions and Operations (Advanced)</i>	Less than 3 years	80	39.00	35.99	.665
	More than 3 years	53	36.23	36.17	
<i>Islamic Finance Institutions and Operations (Basic Level)</i>	Less than 3 years	80	44.50	23.16	.473
	More than 3 years	53	47.92	31.71	
Islamic Financial Literacy (Total)	Less than 3 years	80	39.47	23.99	.494
	More than 3 years	53	36.33	28.41	
<i>Islamic Financial Literacy (Total Advanced)</i>	Less than 3 years	80	36.33	30.78	.582
	More than 3 years	53	33.21	33.70	
<i>Islamic Financial Literacy (Total Basic Level)</i>	Less than 3 years	80	40.94	22.28	.464
	More than 3 years	53	37.80	26.76	

*10%, **5% and ***1% statistical significance.

In Table 11, the results of the comparison of the participants' Islamic financial literacy levels depending on the length of time during which the participant has had an account in an Islamic bank are given. Participants' lengths of time during which they have had an in an Islamic bank are not homogeneous. Therefore, the lengths of time were made homogeneous by dividing them into 2 groups. According to the results of the analysis, the length of time during which the participant has had an account in an Islamic bank does not have any significant effect on the total Islamic financial literacy and its dimensions.

Table 12. Comparison of Islamic Financial Literacy Levels According to the Occupation of the Participants

Islamic Financial Literacy Dimension	Groups	F	Mean (%)	Std. Dev.	P
General Islamic Finance (Total)	Public Sector	72	36.11	24.75	.747
	Private Sector	108	37.91	19.89	
	Self-employed	32	39.34	17.13	
<i>General Islamic Finance (Advanced)</i>	Public Sector	72	34.72	44.12	.811
	Private Sector	108	37.04	43.43	
	Self-employed	32	40.63	41.03	
<i>General Islamic Finance (Basic Level)</i>	Public Sector	72	36.30	24.43	.791
	Private Sector	108	37.84	19.63	
	Self-employed	32	39.17	16.22	
Islamic Products (Total)	Public Sector	72	25.64	31.68	.076*
	Private Sector	108	34.05	29.17	
	Self-employed	32	37.98	24.32	
<i>Islamic Products (Advanced)</i>	Public Sector	72	24.07	34.13	.083*
	Private Sector	108	31.79	34.60	
	Self-employed	32	39.58	31.04	
<i>Islamic Products (Basic Level)</i>	Public Sector	72	26.98	31.59	.090*
	Private Sector	108	35.98	28.13	
	Self-employed	32	36.61	22.35	
Islamic Finance Calculations (Total)	Public Sector	72	24.60	30.25	.006***
	Private Sector	108	29.89	32.94	
	Self-employed	32	46.43	30.57	
<i>Islamic Finance Calculations (Advanced)</i>	Public Sector	72	22.22	36.47	.067*
	Private Sector	108	25.93	37.12	
	Self-employed	32	40.63	41.03	
<i>Islamic Finance Calculations (Basic Level)</i>	Public Sector	72	25.56	31.35	.007***
	Private Sector	108	31.48	36.19	
	Self-employed	32	48.75	32.90	
Islamic Finance Institutions and Operations (Total)	Public Sector	72	34.44	26.48	.622
	Private Sector	108	38.70	30.39	
	Self-employed	32	36.88	27.53	
<i>Islamic Finance Institutions and Operations (Advanced)</i>	Public Sector	72	31.11	33.38	.348
	Private Sector	108	37.04	35.32	
	Self-employed	32	28.75	31.29	

Islamic Financial Literacy Dimension	Groups	F	Mean (%)	Std. Dev.	P
<i>Islamic Finance Institutions and Operations (Basic Level)</i>	Public Sector	72	37.78	24.57	.486
	Private Sector	108	40.37	30.57	
	Self-employed	32	45.00	28.28	
Islamic Financial Literacy (Total)	Public Sector	72	31.15	26.00	.224
	Private Sector	108	35.78	24.30	
	Self-employed	32	39.49	19.23	
<i>Islamic Financial Literacy (Total Advanced)</i>	Public Sector	72	27.59	31.30	.328
	Private Sector	108	33.46	32.00	
	Self-employed	32	36.25	29.23	
<i>Islamic Financial Literacy (Total Basic Level)</i>	Public Sector	72	32.81	24.53	.195
	Private Sector	108	36.87	21.96	
	Self-employed	32	41.02	16.49	

*10%, **5% and ***1% statistical significance.

In Table 12, the results of the comparison of the participants' Islamic financial literacy levels by the sector of employment. According to the results of the analysis, the participants' literacy scores taken from the dimensions of "Islamic Products" and "Islamic Finance Calculations" vary significantly depending on the sector of employment. In this regard, the literacy scores taken from the dimensions of "Islamic Products" and "Islamic Finance Calculations" by the self-employed are higher than those of the public sector and private sector workers. On the other hand, the literacy scores taken from the dimensions of "General Islamic Finance" and "Islamic Finance Institutions and Operations" were found to be not varying significantly depending on the sector of employment.

5. Discussion And Results

Financial crises in recent years, the development of financial markets, and the complexity of banking products have contributed to increasing interest in financial literacy (Al-Tamimi and Kalli; 2009; Abdullah and Anderson, 2015). Low level of financial information causes erroneous financial decisions and this has negative effects on the financial structure of countries; as a result, importance of financial literacy has increased (Chen and Volpe, 1998; Atkinson and Messy, 2012; Ganesan, 2016). The development of Islamic finance and banking in the last two decades has led to increasing interest in Islamic financial products and Islamic banking and Islamic financial products have become an important alternative for both Muslims and non-Muslims (Chong and Liu, 2009, Setiawati et al., 2018). In this respect, Islamic financial literacy has gained importance in order to understand Islamic financial products and to make correct decisions in Islamic finance and banking practices within the framework of Islamic law (Ahmad and Haron, 2002). Islamic financial literacy is a very new topic and there is limited research on it (Rahim et al., 2016, Eliza and Susanti, 2020; Rozikin

and Sholekhah, 2020). With the current study, it was aimed to make contributions to limited Islamic finance literature in Turkey and help fill the void in the literature. In the current study, a questionnaire consisted of 47 items was administered to 476 people living in Turkey in the period between July and September 2020 and the items were gathered under four dimensions and used to measure the Islamic financial literacy levels of the participants.

As a result of the analyses, the total Islamic financial literacy of the participants was found to be 32.06% while the total basic level Islamic financial literacy was found to be 33.20% and the total advanced Islamic literacy was found to be 29.64%. The highest literacy level was found for the dimension of “Islamic Finance Institutions and Operations” (35.38%). The lowest literacy level was found for the dimension of “Islamic Products” (28.31%). When the Islamic financial literacy obtained in the current study was compared to the Islamic financial literacy found by Abdullah et al. (2017) as 47.36% and by Setyowati et al. (2018) as 65% and by Albaity and Rahman (2019) as 62% seems to be highly low. When the countries with higher Islamic financial literacy scores are analyzed, it is seen that they include countries such as Malaysia, Indonesia and the United Arab Emirates. These are the countries where Islamic finance and Islamic banking practices have been developed and thus, compared to Turkey, financial literacy is naturally more advanced in these countries. In this respect, given that the Islamic finance and banking practices are still in the development stage in Turkey, it is quite normal that Islamic literacy is also in the stage of development. Thus, Islamic financial literacy scores vary from country to country.

In the current study, first, the hypothesis that demographic variables have an effect on the level of Islamic financial literacy and then the hypothesis that being a customer of an Islamic bank has an effect on the level of Islamic financial literacy were developed. The demographic variables of the current study are gender, marital status, age, education level and income status. According to the results of the current study, the literacy scores taken from the dimensions of “Islamic Finance Calculations” and “Islamic Finance Institutions and Operations” vary significantly depending on gender. These findings seem to be in compliance with the literature. Chen and Volpe (1998) stated that gender has a decisive role in financial literacy while Abdullah et al. (2017) and Albaity and Rahman (2019) stated that it has an important influence on Islamic financial literacy. However, in the current study, the Islamic financial literacy level of the female participants was found to be higher than that of the male participants. This finding of the current study is different from the findings of the studies showing that the financial literacy level of men is higher than that of women (Chen and Volpe, 1998; Eser and Yiğiter; 2020). This might be because the gold and foreign currency are traditional means of investment in Turkey. Investment in gold is generally made by women in Turkey, and women tend to make more investment in institutions purchasing physical gold, which may explain this finding of the current study.

In the current study, it was concluded that marital status has a significant effect on the literacy scores taken from the dimensions of “General Islamic Financial Literacy” and “Islamic Finance Institutions and Operations”. When people get married, they

need to manage family budget, which may contribute to their having higher level of Islamic financial literacy than singles. The results related to age demographic variable in the current study have revealed that the Islamic financial literacy level of the participants aged 26 and over is higher. When the results related to the effect of the education level demographic variable are examined, it is seen that the Islamic financial literacy level of the participants who have high school or higher level of education is higher. The results obtained for the age and education level demographic variables in the current study concur with the literature (Chen and Volpe, 1998; Çömlekçi, 2017; Albaity and Rahman, 2019; Darakdah et al., 2020; Sapir and Ahmad, 2020; Suci and Hardi, 2020). With increasing age, individuals tend to develop higher awareness of saving and investing. Thus, with increasing age, individuals are expected to focus more on financial issues to make more correct decisions and to increase their financial literacy. The fact that Islamic banking is developing as an alternative in Turkey may give rise to the result that older people's Islamic financial literacy is increasing. In addition, the higher amount of young population in Turkey, the rapidly increasing number of universities in recent years and the classes offered in these universities on Islamic finance and banking increase the level of Islamic financial literacy among the participants who have high school education and higher level of education.

On the other hand, no relationship was found between income status and Islamic financial literacy level. In other words, income status is not effective on Islamic financial literacy level. When the results obtained in the current study are evaluated for Turkey, it can be said that people from each income status have accounts in Islamic banks and that income status does not lead to a significant difference on the level of Islamic financial literacy. These results related to the demographic variables support the first hypothesis of the study. Thus, it can be argued that the demographic variables are influential on the level of Islamic financial literacy.

In the current study, the state of having an account in an Islamic bank, the number of Islamic banks where the participant has an account and the length of time during which the participant has an account in an Islamic bank were also evaluated in terms of their relationship with the level of Islamic finance literacy. The results obtained have revealed that those who have an account in an Islamic bank have a higher level of Islamic financial literacy than those who do not. In addition, the number of Islamic banks where the participant has an account and the sector of employment were found to have effects on the level of Islamic financial literacy. These results support the results reported by Abdullah and Anderson (2015), Antara et al. (2016), Zaman et al. (2017). The length of time during which the participant has had an account in an Islamic bank was found to have an effect on the level of Islamic finance literacy. The customers of an Islamic bank conduct more Islamic banking transactions than those who are not customer of an Islamic bank and thus, their level of information about Islamic banking products and services is increasing. Hence, Islamic bank customers have higher Islamic financial literacy than non-Islamic bank customers. The results obtained in this context support the second hypothesis of the current study and it can be said that being a customer of an Islamic bank has an effect on Islamic financial literacy.

Another result of the current study is that the sector in which the participants work is effective on the level of Islamic financial literacy. According to the results of the current study, the self-employed people have a higher level of Islamic financial literacy compared to the public and private sector employees. This result is different from the results reported by Çömlekçi (2017) and Er and Mutlu (2017). According to Çömlekçi (2017), public sector employees and according to Er and Mutlu (2017) private sector employees have a higher level of Islamic financial literacy. The results obtained support the third hypothesis of the current study and thus, occupational groups can be said to have a significant effect on the level of Islamic financial literacy. In Turkey, it can be said that self-employed people work more with Islamic banks. Public employees make salary agreements in return for promotions in certain periods and these agreements are mostly made with conventional banks. In addition, the private sector has a tendency to work with conventional banks. Thus, the Islamic financial literacy level of self-employed people may be higher compared to the other two groups.

The results of the current study have both theoretical and administrative contributions. The obtained results are important as they offer important insights about Islamic financial literacy in Turkey. In addition, the results obtained from the research on Islamic banking can be capitalized on in many ways. In the current study, demographic variables have been proved to have effect on Islamic financial literacy. In this connection, the finding of the current study showing that the participants aged 26 or over have a higher level of Islamic financial literacy can help Islamic banks in determining their customer profile. In addition, as it has been revealed in the current study that self-employed people have a higher level of Islamic financial literacy, the introduction of new Islamic products and services can be first made to this group of customers. Thus, the results regarding especially demographic variables can help managers determine the new Islamic products and target markets.

The current study has some limitations. The main limitation of the study is that the results have been obtained within the context of Turkey and cannot be generalized. Differences such as different demographic structure, culture, economic and legal infrastructure may lead to different results in different environments. Yet, the results obtained in the current study may provide guidance for future research. Participants may have some prejudices about Islamic finance, Islamic banking and Islamic products but the great majority of the people living in Turkey are Muslim and therefore, it may be easier for people to understand and evaluate Islamic finance, Islamic banking and Islamic products that must be offered in compliance with Islamic law.

Future research to be conducted on Islamic finance can analyze different demographic variables. Larger samples can be used in future research. Similar studies to be conducted will contribute to the better understanding of the issue.

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Impact of Transnational Corporations Activity on the Economic Development of Ukraine

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Abstract Transnational corporations, through foreign direct investments, have transformed the world economy into international production, ensured the development of scientific and technological progress in all its directions, which created a significant basis for the study of this topic for the introduction of changes in Ukraine. Ukraine is characterized by a rather low indicator of transnationalization of the economy. However, using vector autoregression framework, it is found that foreign capital inflows, especially foreign direct investment, have certain impact on the country's economic development. The major countries investing in Ukraine are Cyprus and the Netherlands, while the main areas of investment are manufacturing, trade, real estate operations, financial, and insurance activities. Quite a few corporations that are formally controlled by foreign investors are represented on the territory of Ukraine, which in general have an impact on both the country's income and the formation of trends in particular economic sectors. Transnational corporations of Ukrainian origin are relatively small, but some have entered international markets and are significant competitors. At the same time, the main strategy used by these corporations to expand is tax evasion by using different tax systems. The need for state-level change in the investment climate and stimulation of the reorientation of Ukrainian companies to high-tech markets is confirmed.

Keywords: transnational corporations, foreign capital flows, subsidiaries, Ukrainian corporations.

JEL Classification: F21, F23, F38; F63, G38, H20.

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1. Introduction

Since the 1980s, transnational corporations have become equal participants in international economic relations on a par with states, and sometimes like leaders. Therefore, influential positions of transnational corporations in the national and global economies highlights relevance of the research of their performance.

Ukraine among other countries is no exception. Since gaining independence in 1991, attracting foreign investments, primarily foreign direct investments, has been one of the main formal tasks of the Ukrainian president, parliament and government. And based on the formal competitive advantages - excellent geo-economic position, the availability of natural resources and a highly qualified workforce, Ukraine should have become quite attractive for foreign investment of leading transnational corporations.

In reality, the situation is rather controversial. Investment in the country after 2017 has seen a slight upward trend, preceded by a sharp decline after 2014. The growth was notable until 2019. There was a significant drop in 2020 (State Statistics Service of Ukraine (SSSU), 2021).

2. Literature review

According to the UNCTAD annual reports, the situation in Ukraine of worsening growth and a certain stagnant period with the momentum of FDI inflow is related to political and economic instability in the country (UNCTAD, 2020). These provisions can be confirmed by the results of the study on the causes of the problematic climate for FDI conducted by the Ukrainian investment company Dragon Capital in cooperation with the European Business Association. The main reasons given in this study are corruption, distrust of the judiciary, instability of the monetary unit, and deterioration of the financial situation in Ukraine, followed by the monopolization of the oligarchs' power and military conflict (Dragon Capital, 2020).

The official results for 2020 do not expect any improvement due to the global pandemic and global economic trends.

According to the previous studies of Bakari et al. (2019), A. Rogach et al. (2017), T. Rodionova et al. (2019), R. Stephen et al. (2018), S. Yakubovskiy et al. (2020, 2019), the inflow of foreign capital may have a dual effect on the development of transition economies. On the one hand, foreign investments, primarily direct, stimulate an increase in the efficiency of enterprises in national economies, on the other hand, lead to an outflow of capital from national economies.

For a more comprehensive assessment of the impact of foreign investments on the recipient countries Rodionova (2013) introduced a new economic indicator, the "coefficient of coverage of foreign investments", which is the ratio of total investment income in the corresponding cumulative financial account inflows. According to the results of the research foreign direct investment income outflow had negative impact on the balance of payments of most emerging markets economies.

3. Hypothesis, methodology and data

To test the hypothesis that the inflow of foreign investments impacts the social-economic development of Ukraine, the vector autoregression (VAR) framework is chosen since it provides a systemic way to capture the rich dynamics in multiple time series. Specifically, to give evidence on the dynamic interactions between national gross domestic product (GDP) and the inflow of foreign investments (IFI), the following VAR systems are estimated to test Granger non-causality:

$$\begin{aligned} GDP_t &= \alpha_1 + \sum_{i=1}^p \beta_{1i} IFI_{t-i} + \sum_{i=1}^p \gamma_{1i} GDP_{t-i} + \varepsilon_{1t} \\ IFI_t &= \alpha_2 + \sum_{i=1}^p \beta_{2i} GDP_{t-i} + \sum_{i=1}^p \gamma_{2i} IFI_{t-i} + \varepsilon_{2t} \end{aligned} \quad (1)$$

where GDP , IFI , and ε denote respectively: gross domestic product; inflow of foreign investments depending on the type of foreign capital – direct, portfolio, and other investments; and the error term. α is a constant term, β and γ denote the coefficients to be estimated, p is the lag order selected. The null hypothesis of Granger non-causality from IFI to GDP and from GDP to IFI are $\beta_{1i}=0$ and $\gamma_{2i}=0$, respectively. The rejection of the null hypothesis of the Granger non-causality from IFI to GDP implies that the past investment can help predict the country's gross domestic product and vice versa. The model is estimated as follows. First, an unrestricted VAR is estimated. Then Granger causality testing is performed. The optimal number of lag length was chosen by looking at SIC criteria. The VAR stability was checked: all AR roots are inside the unit circle, and the Autocorrelation LM test states that no serial correlation in the residuals was detected. Yearly data is used, taken from the Balance of Payments Statistics of the International Monetary Fund.

4. Research results

The largest FDI investors in Ukraine are: Austria, Germany, Cyprus, the United Kingdom, the Virgin Islands, the Netherlands, Switzerland (SSSU, 2021). During the period under review, Cyprus has been the leader in implementing direct investments in Ukraine, followed by the Netherlands, followed by the United Kingdom. At the same time, in 2019, the largest increase in the value of assets in Ukraine was observed among investors from the Netherlands - 21.6% growth; in second place were investors from Cyprus - 20.6% growth.

The investors from the Netherlands are mainly investing in areas of concern for large enterprises, affiliate programs, and farms. One of the main reasons for the significant growth in investment from the Netherlands to Ukraine is the presence of the partnership programs between the Dutch and Ukrainian governments: a particular program of the agricultural sector, "FoodTechLink Ukraine," a bioenergy project "Biobased Energy Ukraine" (Biobased Energy Ukraine, 2020; Food Tech Link, 2020). There is also the "Orange Directory" program, allowing companies from one country to look for a

partner in another. Besides, this program is suitable for potential investors looking for a possible business expansion in a new market or industry (Orange Directory, 2020). However, these statistics may also indicate the existence of a tax avoidance problem in the cross-border FDI. In particular, the Netherlands in certain cases is used by companies as a tax avoidance arena. The same motivation is inherent in the majority of investors from the country - the investment leader for Ukraine - Cyprus. The detailed breakdown by country is shown in figure 1.

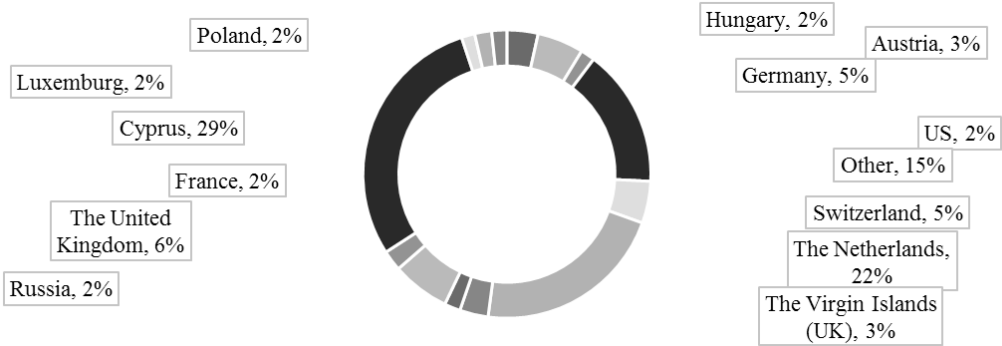


Figure 1. Investor countries in Ukraine, 2019
 Source: calculated and compiled by the authors, data from SSSU (2021).

The above data indicate that the top thirteen investing countries in Ukraine account for 85% of the total FDI in 2019. Statistical data indicate a significant regional diversification of foreign direct investment in Ukraine with the domination of investors from Cyprus and the Netherlands due to the presence of a simplified tax regulation system in them with the possibility of registering companies with offshore jurisdiction. Cyprus was referred to as the offshore zones by the Cabinet of Ministers of Ukraine by Resolution No. 1045 of December 27, 2017. Studying investments in Ukraine, it is worth considering their sectoral focus, shown in Figure 2.

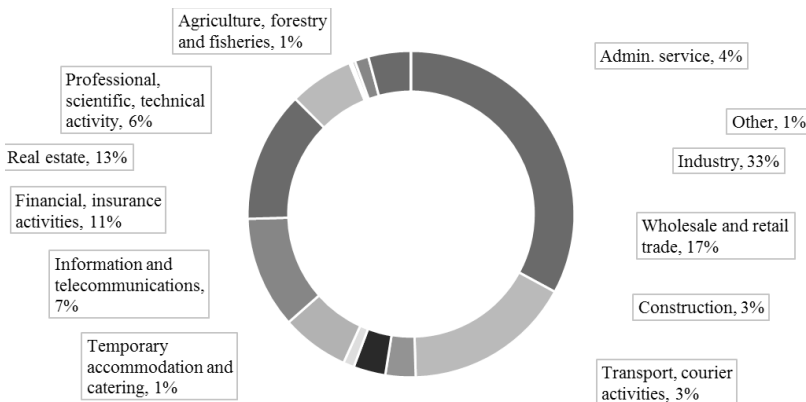


Figure 2. FDI distribution in Ukraine by industry, 2019
 Source: calculated and compiled by the author, data from SSSU (2021).

Most investments are made based on manufacturing, trade, real estate operations, financial and insurance activities. In particular, the most popular area for German investments in Ukraine is auto parts and components related to service in the industry. An example of this is the activities of Leoni (Leoni in Ukraine, 2019). In 2019, the company's revenues grew by 2.4 times. It is worth considering that with the growth of the subsidiary companies' income, the income of the joint venture increased by 1.5 times. Nevertheless, part of the Ukrainian enterprise's contribution has decreased, which is associated with expansion of Leoni's activities in other territories. Simultaneously, France's investments aim to cooperate, which is being built against the background of energy company Engie (Engie Energy Management Ukraine, 2019). A clear rise of the company on the territory of Ukraine took place in 2018, which was also confirmed by the company's profit. In 2019, the yield fell significantly in the Ukrainian branch, but grew in head office to 60 million euros.

The activity of the representative of the American segment of investments in Ukraine - US Development Finance Corporation is also of interest. In 2020, information appeared about this company's investments in two regions of Ukraine: 62 million of US Dollars for the country's energy independence and 27 million of US Dollars for the construction of the Sheraton hotel (loan) (DFC, 2020).

Financial and insurance activities are characterized by branches of foreign banks and the proliferation of life-insurance companies. Non-resident banking and insurance institutions invested about 11% of the total investments in 2019. In total, at the end of 2019, 35 banks with foreign capital were functioning in Ukraine, including 23 banks that were 100% controlled by foreign investors (NBU, 2020). An example of a successful investment from an insurance company is Metlife. The Ukraine branch's profit is growing every year; in 2019, the net profit amounted to approximately 8 million of US Dollars, which is 1.12 times more than in 2018, which correlates with the performance of the parent company (Metlife in Ukraine, 2020).

The results of the Granger test in Table 1 support the hypothesis of the influence of foreign investment flows on the GDP of Ukraine.

Table 1. The results of the Granger test

Indicator	GDP	FDI	PI	OI
GDP	-	61.61 (0.00) ^a	58.61 (0.00) ^a	6.02 (0.20)
FDI	2.98 (0.56)			
PI	16.23 (0.00) ^a			
OI	4.05 (0.40)			

Note: The numbers in the parentheses beside the Wald statistics are the P-values: a, b, c represent the 1%, 5%, and 10% significance levels, respectively.

Source: authors' calculations, data from IMF (2020).

According to the Granger causality test for Ukraine inflow of direct and portfolio investments has an impact on a national gross domestic product; dynamics of GDP cause portfolio investment inflows.

Coefficients of coverage of foreign investments for Ukraine are the following: the coefficient of coverage of direct investments for 1996-2007 was 10.1%, during 2008-2018 – 56.1%; the coefficient of coverage of portfolio investment for 1996-2007 was 26.5%, during 2008-2018 – 92.6%; the coefficient of coverage of other investments for 1996-2007 was 18.6%, during 2008-2018 – 72.4%. Results of calculating coefficients of coverage of foreign investments for Ukraine show that foreign direct investments are less profitable among all other investments. It means that the foreign direct investments income does not make a significant negative impact on the current account of Ukraine.

The general characteristics of FDI attracted to the country and their diversification allow deriving the index of transnationalization of Ukraine (Fig. 3). The calculated indicator shows a low transnationalization of Ukraine, with an index of less than 0.1. The downward trend is since 2012 and since 2016.

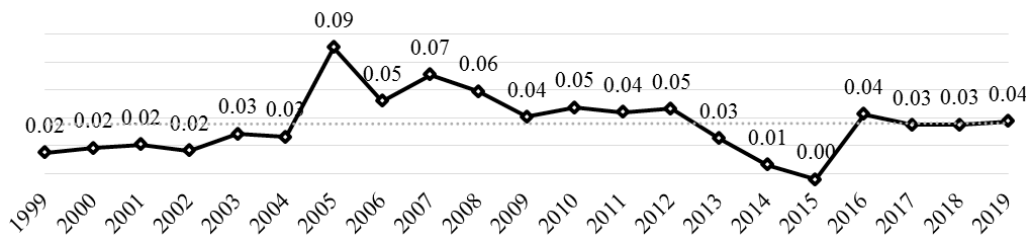


Figure 3. Index of transnationalization of Ukraine

Source: calculated and compiled by the authors.

To assess the impact of TNCs activity on national economy an important indicator is the number of foreign enterprises and subsidiaries in the territory of Ukraine. During the study period, their number significantly decreased. In particular, in 2019 the number of subsidiaries decreased by 1.5%, while the number of foreign companies decreased by 6%. In general, from 2011 to 2019, the number of subsidiaries decreased by 19.3% (SSSU, 2021).

The following well-known transnational corporations are represented by their subsidiaries in Ukraine: McDonald's Corporation, Nestle SA, Carlsberg Group, Metro Inc., British American Tobacco plc, the Coca-Cola Company, Credit Agricole Group, Danone SA, Turkcell İletişim Hizmetleri A.Ş., and others. The list of international corporations in Ukraine is quite significant; at the same time, as the calculation of the coefficients of coverage of foreign investments showed, their foreign direct investments are less profitable among all other foreign investments.

Transnational corporations are steadily investing in their subsidiaries. Nestle S.A. is one of the leading investors. This company owns the following trademarks in Ukraine: TM Torchin, TM Mivina, TM KitKat, and TM Nescafe. The corporate structure of the company in Ukraine is presented in table 2.

Table 2. Subsidiary capital of Nestle S.A. in Ukraine, 2019

Subsidiaries	Place	Currency	Capital	millions of US Dollars	Part
Nestle, all		mln CHF	52.862	59.673	100
LLC Nestle Ukr	Kyiv	UAH	799 965	0.028	
Svitoch	Lviv	UAH	88 111 060	3.128	
Volynholding	Torchin	UAH	100 000	0.003	0.012
Technocom	Kharkiv	UAH	119 658 066	4.448	

Source: calculated by the authors, data from Nestle Group (2020).

There are three factories controlled by the Nestlé corporation in Ukraine. These companies are 100% controlled by Nestle S.A. The peculiarities of the production and financial activities of branches of foreign transnational corporations in Ukraine is analyzed using the example of the Svitoch company, which is fully controlled by the Nestlé corporation. The financial performance of the factory is reflected in Table 3.

Table 3. Selective financial indicators Svitoch, thousand UAH

Financial performance	2018	2019
Net sales	2 260 086	2 440 593
Gross income	208 170	232 896
Costs	2 313 202	2 328 365
incl. material expenses	1 805 470	1 885 319
incl. salary expenses	116 980	171 985
Net profit	128 339	127 222

Source: Nestle Group (2020).

The above data indicate a slight increase in the company's sales in 2019 compared to 2018. The gross income was increased by 11.8% in the period under review. The material expenses have not undergone significant changes, but the salary has increased significantly. An important point is a slight increase in taxes, paid by the company. In 2018, paid taxes amounted to 28,875 thousand UAH, and in 2019 this figure was 29,480 thousand UAH. Such a small increase did not allow the company to get into the top 100 companies with the amount of paid taxes (Rating of the largest companies in Ukraine, 2020), while McDonald's is ranked 54th. It can indicate that the parent company thus generates revenue through special tax schemes.

After analyzing examples of the activities of branches of foreign TNCs in Ukraine, it is worth considering Ukrainian TNCs and the possibilities of their development. Ukrainian multinational corporations are a special type of enterprise. Some corporations that are considered transnational in Ukraine do not meet the classical

requirements, but despite this, they can use the benefit from the possibility of using branches to minimize tax deductions.

The most famous transnational corporations of Ukraine are: Roshen Corporation, UkrAvto, SCM, among the small TNCs are: Farmak, T.B.Fruit, Ovostar Union, PJSC Mironovsky Bakery, and others.

At the end of 2020, Roshen subsidiaries were located in Lithuania, Hungary, and Ukraine. One of the leading factories in Ukraine is the Kyiv confectionery factory Roshen. At the end of 2020, the plant owners were a subsidiary of Roshen Confectionery Corporation and Central European Confectionery Company. The latter has not been a taxpayer in Ukraine since 2016, since the declared activity is exclusive of an investment nature and the volume of sales is below the norm presented in the tax code.

Roshen, like Nestlé, is included in the rating of 100 companies producing sweets. While Nestle is ranked 6 with 413 plants, Roshen is ranked 27 with 8 plants. In the rating, the corporation's profit is approximately 800 million of US Dollars (Top 100 Candy Companies, 2020).

It is advisable to compare the Kyiv Confectionery Factory's financial performance, its subsidiary in Hungary, and Romania's representative office. (Figure 4).

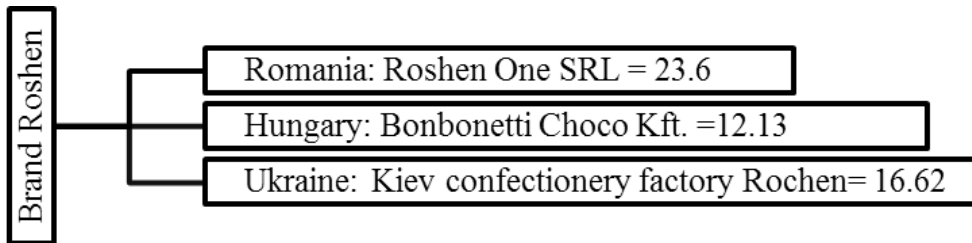


Figure 4. Comparison of revenue indicators of Roshen branches in different territories
Note. Metrics are down to millions of US Dollars

Source: calculated by the authors, data from Roshen Group (2020).

According to the data, more significant revenue in 2019 was observed in the Romanian branch, associated with selling products in a large territory. Among the presented factories, the Ukrainian department received the most considerable income; the Hungarian one is 4.49 million of US Dollars. Romania's representative office has significantly increased its income since 2015; the turnover has increased annually by an average of 1.9 times. The Romanian branch's net profit amounted to 433,238 dollars in 2019; the Ukrainian one amounted to 351,681 dollars. The Romanian branch's total costs were 97% in revenues, and there were 96% for the Ukrainian branch. This indicator has a reasonably similar meaning, but the growth in Ukraine is associated with a significant increase in wage costs. After examining the statistical data presented to the branches, it can be noted that the Romanian enterprise paid the full amount of tax at the rate of 16%. At the same time, in Ukraine, due to the opportunities to reduce the tax base, the corporation paid a much lower amount in taxes. An essential aspect of corporate expansion is the cost of selling products and investing in production. In general, the amount of expenses for advertising services

by the Ukrainian branch is small and in 2018 amounted to UAH 119 thousand, and in 2019 there were no expenses. This is an obstacle to entering new markets, other than those that are already basic. But, it is worth noting about the company's investments in production facilities or in social infrastructure. The second element adds brand awareness and attracts the attention, which can be called one of the marketing elements (Roshen Group, 2020).

The next transnational Ukrainian origin corporation is System Capital Management Limited, which includes the Metinvest Group holding group. The corporation is represented in various international markets and is focused on two main activities: mining and metallurgy. The corporation gets more profit from the second segment. The company's financial indicators are presented in Table 4.

Table 4. Revenue by location Metinvest B.V., millions of US Dollars

Location/Period	2016	2017	2018	2019
Ukraine	1606	2467	3340	3156
Rest of Europe	2267	3219	3991	3609
Middle East and Northern Africa	949	1469	2195	1656
South Eastern Asia	591	505	701	941
Commonwealth of Independent States	413	775	758	825
North America	320	436	757	464
Other countries	77	60	138	106
Total	6223	8931	11880	10757

Source: Metinvest (2020).

The company's profit in all regions grew from 2016 to 2018; in 2019 there was a decrease in profit in the leading regions: Ukraine, Europe, and the Middle East, and North Africa by 11.6%. The central place of profit should be considered Europe, second place - Ukraine. The difference between these indicators is not so significant. An increase in profit in 2020 based on financial results is not expected, since, for nine months of 2020 against the same period in 2019, the company's revenue decreased by 10%. This is due to the situation in the world caused by the pandemic and general trends in the industry. Investments as an opportunity for the corporation to expand in 2020 decreased by 40% in 9 months. The main investments are the holding's capital investments in the reconstruction of outdated equipment and the expansion of activities in the field of ecology.

Another possible way to increase the profits of a corporation can be considered differences in base taxation calculation. Taxation takes place in several tax jurisdictions depending on the location of the affiliates. In Ukraine, the tax in 2019 was 18%, in

Switzerland 10%; in Europe - from 10% to 28%; for operations in the USA - 21%. There is also the concept of deferred payment, which is increasing in the company every year. So, the corporation's paid taxes in 2018 amounted to 275 million of US Dollars; in 2019, this sum was 47 million of US Dollars. While the deferred tax payment in 2018 amounted to 31 million of US Dollars, in 2019, it was 140 million of US Dollars. This is quite a significant amount of loss of state budgets since in 2019, the total amount of taxes that had to be paid was 187 million of US Dollars. The paid sum was only 25%. These deferral methods are convenient for corporations as they can use the freed-up money for technology upgrades or marketing. This scheme with taxes is acceptable since in the countries mainly (for example Ukraine, and Italy), there is no time limit for deferred payments (Metinvest, 2020).

The presented Ukrainian corporations have certain tendencies of stagnation or even worsening of profits after 2018, associated with a significant dependence on global trends. Nevertheless, these Ukrainian corporations are substantial competitors for foreign companies and are trying to expand their activities. By becoming transnational, Ukrainian companies receive certain advantages due to, on the one hand, entering new markets, and on the other, the possibility of reducing the tax base and, accordingly, tax payments in Ukraine.

5. Discussion

The analysis of the features of the activities of foreign and Ukrainian TNCs allows us to draw the following conclusions aimed at improving the investment climate in Ukraine and increasing the efficiency of Ukrainian companies.

First of all, it is necessary to change tax legislation in the direction of its unification with the requirements of the European Union and the United States. All business entities in Ukraine must pay taxes, including representatives of small and medium-sized businesses. Of course, small businesses can enjoy certain benefits. In particular, it is possible to introduce a 50% reduction in income tax for new entrepreneurs or to defer the payment of certain taxes. But the situation in which small and medium-sized businesses are not controlled at all due to the lack of fixation of financial transactions is not acceptable, because it allows large companies to use small business entities to minimize tax deductions.

To increase the investment attractiveness, the adoption of the Corporate Governance Code of Ukraine within the IFC programs "Investment Promotion through Integrated Environmental, Social and Governance Standards in Europe and Central Asia" in 2020 is of great importance. Moreover, the state bodies' powers should be expanded, not for fully regulating investment funds and their restrictions, but ensuring useful and timely legal protection of investors. In connection with the legislative framework's improvement in the Doing Business 2020 rating (Doing Business, 2020), Ukraine has climbed seven steps and occupies the 64th position. The main problem in this context is the rights of shareholders and the degree of responsibility of directors. Nevertheless, the development took place with the loss of force by the NBU Resolution No. 410 "On regulation of the foreign exchange and foreign exchange markets of

Ukraine” dated February 7, 2019 and the entry into force of the NBU Resolution No. 5 “On approval of the Regulation on Protection measures and determination of the procedure for performing individual transactions in foreign currency“ dated January 2, 2019, with the latest amendments (November 5, 2019). This law allows the payment of dividends to non-residents legally. This should help attract foreign investors as subsidiaries of multinational corporations. Since June 2019, banking institutions are allowed to provide loans to international corporations in hryvnia for the intended purpose of the transaction (swap and forward) for up to 14 business days. All of these implementations have made significant contributions. However, it is necessary to create a unified information base on various projects and government decrees for better understanding of foreign investors’ rights in the country. This will reduce the risk of uncertainty for TNCs. The transparency of the information environment is an important factor in attracting investors to the country. The laws of 2018 “On accounting and financial reporting in Ukraine” and “On the audit of financial statements and auditing” increased the transparency of reporting, which should help to strengthen confidence of investors and facilitate the transparency of issuers’ financial statements.

Simultaneously, the tax system for attracting investment has improved. However, Ukraine has a limited range of official tax benefits for foreign investors. Nonetheless, preferential conditions for interaction with foreign investors in cluster form and industrial parks have been improved. These aspects include deferral of taxation, support for specific categories following the Tax Code, deferral of payment of VAT for up to 2 years subject to particular requirements. The main problem for this segment is the criteria that must be met by both local corporations and foreign investors.

Nevertheless, the benefits offered to foreign investors cannot be compared with the almost complete absence of taxation for local companies that use representatives of small and medium-sized businesses under a simplified taxation system to sell their products or trade in goods, illegally imported to Ukraine.

Drawing up a system of recommendations for Ukrainian TNCs is a rather tricky issue, as it is difficult to evaluate objectively the effectiveness of managing Ukrainian TNCs or branches of foreign TNCs in Ukraine. The main element that allows Ukrainian origin corporations to grow is the use of unique tax bases and underutilization of marketing and R&D expenditures. Most companies need to create new organizational structures that are responsible for marketing costs, which represent a significant portion of sales costs. The marketing department should be the last link in choosing strategic programs for the future. Initially, the choice should be made in the risk management department, which will assess the risk of implementing the strategy when entering the international market, evaluating and forecasting the activities’ results. At the same time, Ukrainian companies need to rethink the costs associated with promotions. According to statistics, in the world's leading transnational corporations, more than 3.5% is allocated to marketing as a separate component. This improves the corporation's performance while increasing sales. Therefore, the marketing strategy should be based on adaptation to different markets in the international arena. Currently, Ukrainian transnational corporations need to increase R&D spending too. A study

of the experience of world's leading TNCS shows corporations' contribution mainly to capital investment, which is associated with the replacement of obsolete tools or upgrades of standard equipment for the company. Introducing new elements to expand Ukrainian origin corporations' activities is a rather tricky issue, as R&D costs are very high and not always profitable for companies in the short term. However, in the long run, this is a necessary element.

In general, a stable amount of costs of about 9.5% of the corporation's turnover is required. This will improve the products and influence the results. Adaptation to the Ukrainian market can be much lower (4-5%). However, effective implementation of the suggested recommendation will allow corporations to improve their products and remain internationally competitive. The R&D segment cannot exist without top-level support. It is necessary to support investment lending to banks at the state level, allowing the improvement of research and development. The following measures may be taken to expand state activity: reduction of the tax burden on banks' profits from investment lending for more than five years for research and development; removal of the tax burden on banks' income from long-term financial investment related to TNCs; - when investing in risky industries, state support in terms of insurance is required.

6. Conclusion

The transnationalization of Ukraine is at a relatively low level, however, using the vector autoregression framework, it is found that foreign direct investment inflow have a certain impact on the country's economic development. The analysis makes it possible to indicate the need to pay special attention to the protection of the property and intellectual rights of foreign origin investors, which will further stimulate creating of their subsidiaries in the territory of Ukraine.

Transnational corporations of Ukrainian origin are relatively small, but some have entered international markets and are significant competitors. At the same time, the main element used by these corporations to expand is tax evasion when using different tax systems.

It should be noted that the government needs to stimulate the reorientation of Ukrainian companies to high-tech markets, which will undoubtedly increase the level of international competitiveness of Ukrainian transnational and national companies.

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Aims and scope

Transition Studies Research Network was founded in 2002 as CEEUN-Central Eastern European University Cooperation, with the aim to connect a group of experts and university faculty in a program of cooperation devoted to research programs and specialized international postgraduate and doctoral courses. The Network has grown fast and soon after the scientific “voice” was established with the Journal Transition Studies Review, published initially by the CEEUN, then by Egea-Bocconi University Press, then by Springer Wien-New York and finally by Transition Academia Press now the Publisher of our journals.

At the beginning, JTSR was focusing on transition in Central and Southeast Europe, interpreting CEEUN purely as a European network. Soon afterwards, the EU enlargement was achieved extending the aims and scope to differentiated forms of partnership with Russia, Ukraine, Caucasus, the Black Sea and Caspian Seas, Mediterranean regions and Near East. This approach had dramatically changed years ago, following a serious violation of the international laws and agreements by the Russian backed insurgency in Eastern Ukraine and Crimea. The situation had been in some way normalized with the efforts of US negotiations with Russia.

The future is unpredictable and certainly the relations in this region with European Union and NATO but will be as before in the relations with Russia in this region. International Relations all over Europe in terms of foreign affairs, economy, financial cooperation and defence specifically are influenced by the Fourth Industrial Revolution and its advanced new technologies and innovative applications, from Quantum to Hypersonic jets up to 8-10 times the sound speed; from Artificial Intelligence and 5G telecommunications. All what few years ago and even Einstein couldn't discover in his advanced impressive evolutionary studies in physic and atomic sciences. These new frontiers will introduce a highly sophisticated defence industrial advancement, with applications and performances never before imagined. Transition Studies then will enlarge their horizon to include these discoveries and achievements that will

determine and industrial deep reassessment of final production value chains but also in the traditional components and sophisticated sectors of new-tech “revolution”.

Let briefly look back to the First industrial revolution. After the mid-eighteenth century, Europe experienced an unprecedented period of expansion which goes by the name of “industrial revolution”. Among the causes of this phenomenon - which initially took hold in Great Britain and which definitively changed the appearance of the modern and contemporary world - we can indicate: the impressive demographic growth during the eighteenth century; the expansion of agricultural production, thanks to new cultivation techniques such as mixed agriculture; the diffusion of the system of enclosures, against one. In fact, the last decades of the eighteenth century are the direct consequence of the birth of modern industry, which is characterized by the large-scale use of machines powered by mechanical energy; by the intensive use of fossil fuels as sources of energy and materials that they are not found in nature (such as metal alloys) and due to the progressive organization of work within the factory. From the carbon coke process to the James Watt steam engine (1736-1819), the Industrial Revolution can therefore expand into all over Europe. The “transition studies” then are not belonging to the present but are part of the full history and growth in the world we live. From the first to the Second and Third “revolutions”, respectively pushed on by other dramatic events tied to the first and second World Wars, with the introduction of the telegraph and engines for cars, truck, trains since before, all developed as well for the first world war. Then the third with the advent of the efficient airplanes and the new weaponry of high destructive capabilities. It was a tragedy with millions of killed soldiers and civilians. real tragedies and the toll in human lives was horribly enormous.

The conclusion of the second World War, with the atomic bombs over Hiroshima and Nagasaki, signaled the end but also the moment of slowly moving on reconciliation and peace, that is still going on, even if with conflicts exploded in various part of the globe but never again as much as the holocaust of soldiers and civilians, also for reason of races and religions. It was in 1945 the moment of saying never again, even if the conflicts in China, Middle East, Vietnam, North Africa, Afghanistan, African civil wars and Balkans, just to mention some references and call to our memories. But we have to take also the more geopolitical doctrines and reasons that had motivated the wars in the past century and in part as well in these first 20 years of the XXI century.

A “geopolitical” vision and approach by an Italian great specialist on this fields will help us to understand the complexities and the permanent risks of other deflagrations. Journal Transition Studies Review matters.

Geopolitics, by Carlo Jean - Enciclopedia del Novecento II Supplemento- Treccani editions, Rome(1998) - http://www.treccani.it/enciclopedia/geopolitica_%28Enciclopedia-del-Novecento%29/Summary: 1. Introduction. 2. Definitions of geopolitics and classification of geopolitical theories. a) General considerations. b) Geopolitics and environmental determinism. c) Geopolitics and political geography. d) Geopolitics and geostrategy. e) Geopolitics and geoeconomics. f) Definition and contents of geopolitics. 3. Precursors and history of geopolitical thought until the end of the bipolar world. a) The precursors. b) The birth of modern geopolitics: Ratzel and Kjellén. c) Continental

geopolitical thinking. d) Theories of maritime and aerospace powers. e) The theories of peninsular power. f) The regional and multipolar conceptions. g) French geopolitics. h) South American geopolitics. i) Geopolitical idealism. l) Considerations on the geopolitics of the twentieth century. 4. The Italian geopolitics. a) From the dawn to the Risorgimento. b) The geopolitics of liberal Italy and the fascist regime. c) The geopolitics of the cold war. 5. Contemporary geopolitics. a) Globalist theories. b) Multipolar theories. c) Binary theories. d) Anarchist theories. e) Italian post-Cold War geopolitics. 6. Geopolitical factors and methods used by geopolitics. a) Permanent factors. b) Variable factors. c) Approaches, methods and techniques. □ Bibliography

Well, I closed this window on the “transition” past as we have to look at the future and then to our transition studies today. CEEUN-Central Eastern European University Network was launched with a seminar in Vienna, hosted by the Austrian Institute of Economic Research. The first meeting took place at the Institution that was founded by Friedrich August von Hayek and Ludwig von Mises, two great thinkers and economists: the Austrian Institute for Economic Research-WiFo. Now the scenario is completely different.

From 2005 on, a worldwide regional approach looking to Asia, Latin America, Eurasia and Great Middle East has been implemented. TSRN-Transition Studies Research Network has inherited from the previous CEEUN the “aims and scope” which were recently integrated. In the last ten years Transition Studies Research Network has progressively involved more than 400 internationally well-known member partners and 95 university departments, institutes and research centres independently engaged in many areas and programs.

The scientific interests and fields covered are: Europe and the World, future approach to EU enlargement, global governance economic, financial and policy framework and impact, where the focus would be mainly on growth theories, innovation and human capital, cultural and intellectual heritage, main advanced industrial sectors technologies, investments, international affairs, foreign policy choices and security, monetary policy and main currency areas, banking and insurance, development and area studies, social policies, environment and climate, culture and society, juridical and law studies, regional approach to global governance, peculiarities and critical challenges.

The future transition to open economy and institutional reforms, political and strategic issues and challenges, governance, European, Mediterranean, Asia-Pacific, Middle Eastern, Latin America and Africa perspectives are key topics of this high-ranking journals, ours as well include. Transatlantic and Asia-Pacific relations, security and international order represent, together with applied regional studies, another cornerstone of the Network’s activity and of Transition Studies Review’s contents as well as of and other Journal covering specific aspects and regions: the Journal of Global Policy and Governance (JGPG) The Network is deeply committed to a wide range of transition issues related to quantitative modelling and tools to analysing and researching economic, financial, strategic studies, social, cultural, environmental, juridical main issues.

Publisher: Transition Academia Press
Editor in-chief: Prof. Dr. Giorgio Dominese - Curriculum

Giorgio Dominese is the founder of CEEUN-Central Eastern European University Network and President of Transition Studies Research Network, being also Editor of Transition Studies Review and of the Journal of Global Policy and Governance, all of them published by Transition Academia Press.

After lecturing at Ca' Foscari Venice University (1973-1975), he was Professor of Transitions Economics at Udine University from 2002 to 2008. On 2007 he start lecturing at the Course of European Economy and Financial Governance in full English at Rome Tor Vergata University until 2012. He was for twenty-six years professor at Roma LUISS University as Chair of Economic and Policy of Transitions, then International Relations and from 2011 to 2014 was Chair of Geopolitics at the Master of Science in International Relations.

Professor Dominese has been visiting professor in Beijing at the CFAU-China Foreign Affairs University in the second semester 2012 and lecturing from 2012 to 2014 at UIBE University Beijing. He has been delivering lectures at Renmin University of China, CIIS and Tianjin University. Visiting professor at the Vietnam National University, both in Hanoi and Ho Chi Minh City in 2012 and 2013.

He had been visiting professor at Fudan University in Shanghai, at the School of International Relations, from 2008 to 2010 and lecturing at the School of International Management in 2006-2007.

He had been lecturing as well at Beijing University, at the Viet Nam National University, visiting professor at Bahia Blanca University, Argentina and at the Astana ENU-Eurasian National University in Kazakhstan, lecturing as well at George Washington University USA, EMUNI University Slovenia, MGIMO, HSE and Academy of Science-European Institute in Moscow, Latvia University Riga. Visiting lecturer at National Vietnam University, at the Singapore Economic Review conferences in cooperation with Nanyang Technological University on 2013, 2015 and this year on July-August 2019. He was presenting a main paper and seminar on Law, Economics and Growth at Chulalongkorn University Bangkok in 2015.

In 2009 he became full member of the European Academy of Sciences and Arts in Salzburg. From 2007 to 2012 he was professor at the University Tor Vergata Rome at the School of Economics as Chair of the courses in full English in Economics and Finance and from 2011 to 2013 as Delegate of the Rector and Special Coordinator for the Program Rome World University-RWU. He was Program Coordinator of the second YICGG Research Competition "Global Governance: Growth and Innovation 2020", organized in Rome in August 2008, involving young doctoral, postgraduates and graduate students, as well as Joint-Coordinator of the third edition 2009 of this event at Ilia State University in Tbilisi, Georgia, while he had been in the Judging Commission of YICGG 2013 at Fudan University. Consultant and advisor both for Italian Government and UN system Organizations, as well for multinational companies and banks, he had three years experience in international programs for Development

in African and Asian countries. He was Visiting Fellow in U.S. and is Member of the IISS International Institute for Strategic Studies London; AEA-American Economic Association-USA; DGAP-Deutsche Gesellschaft für Auswärtige Politik, Berlin; DOC-Research Centre, Berlin; IPSA-International Political Science Association, Montreal; CeSPI- Centre for Politics and International Studies, Rome; IDM- Institute for the Danube Region and Central Europe, Vienna. He is Member of the Advisory Board at Taras Shevchenko University Kyiv IIR Global Sustainable Development.

Member of the IDM (Institut für den Donauraum und Mitteleuropa) in Vienna and for many years of the Scientific Boards of WiFo (Austrian Institute of Economic Research); he was expert in the follow ups of the Stability Pact for Southeast Europe and still active in several other European and Asian international research Institutions; Consul of Chile (Hon) in Venice, he had been appointed by Special Award and Paul Harris Fellowship by Rotary International for his international programs and activities. A professional journalist up to now, he was for almost 20 years special envoy for newspapers and magazines, author of investigative journalism, main reports, comments and articles on topics and events. political issues, international relations, strategic studies, economics, finance, society and global governance. In the professional long-lasting experience, he had been advisor and consultant of main Companies and Institutions as Caffaro, SNIA, Zoppas Industries, Banca Intesa San Paolo, Elextrolux-Zanussi Grandi Impianti, COGEFAR-FIAT, San Benedetto, as well as Regione del Veneto, Advisor at Minister of Transport and Regione Friuli Venezia-Giulia.

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